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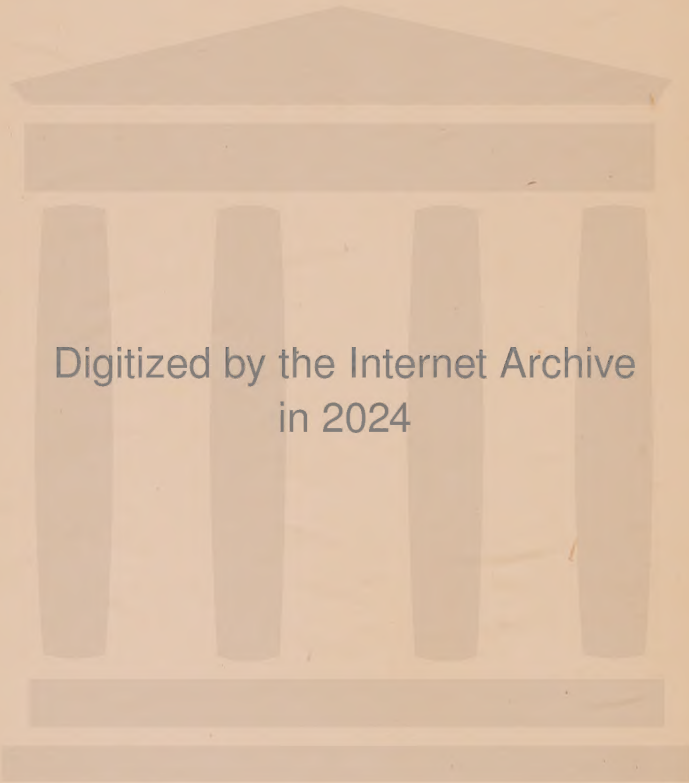
Frederic Jonas Dreyfus

"To be an educated gentleman is a useful and an honorable calling, whether or not it be well rewarded with this world's goods".

Nicholas Murray Butler, 1937

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THE
FINANCIAL HISTORY
OF THE
UNITED STATES,
FROM 1861 TO 1885.

BY

ALBERT S. BOLLES,

PROFESSOR OF MERCANTILE LAW AND PRACTICE IN THE WHARTON SCHOOL OF
FINANCE AND ECONOMY, UNIVERSITY OF PENNSYLVANIA; AND
EDITOR OF "THE BANKERS' MAGAZINE."

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TO HIS FRIEND,

GEORGE D. BAKER,

PRESIDENT OF THE FIRST NATIONAL BANK OF NEW YORK,

This Volume is Dedicated

BY

THE AUTHOR.

PREFACE.

THE three volumes now published cover the period of our financial history from 1774 to 1885. A supplementary volume, however, containing the more important statistics of the subject, is needful, and will be completed, it is hoped, within a year.

When the first volume of the work was published, one critic remarked that a single volume was quite sufficient to cover the ground now gone over in the three. On the publication of the second volume, he remarked that several matters of much importance which had happened during the period covered by it had been omitted. The inconsistency between the criticisms is apparent. The truth of the latter remark is readily acknowledged; but the omissions were designed, as they belong more properly to another work closely related to this, and which we hope to complete at no distant day.

In working up the facts lying within a field so expanded, an author may select those which are most agreeable to himself, or which will most interest his readers, or which he may regard as the most important in solving future questions. We have not worked in either of these lines; but have endeavored to include every topic, measuring its importance by other matters at the time of its occurrence. In other words, we have tried to preserve a unity of proportion in the treatment of topics, though, of course, perfection in this regard was not possible.

Very likely others will differ in the estimate thus formed of the importance of many of the events described in this volume. Some will doubtless maintain that more space ought to have been given to the first great war loan, or to the issue of legal-tender notes, or to the internal revenue or national banking systems, or to the frauds in administering the government, or that a fuller personal account of the principal administrators of the national finances was desirable, or an extended critical consideration of the financial policy of the government in all matters. We realize fully that several of the chapters are each worthy of a volume, and in completing the

original plan, two of the topics treated in this and in the preceding volume will be treated with much greater fullness.

When the second volume was published one critic remarked the author was "only an annalist." The charge can be as truthfully made of this volume as of the other. Though such a method may show that he "does not seem to be sufficiently equipped as an economist," he has attempted to do nothing more than to assemble the facts of our financial history in an orderly manner, uncolored by economic theories. No attempt has been made to play the part of the dogmatist or the schoolmaster, or to make the crooked paths straight. If the author possesses economic opinions, he has had no desire to give them an airing in this volume, contenting himself with giving the facts lying within the proper field of inquiry, whatever they may be. Whether the facts are consistent is no concern of his; whether they sustain or undermine any economic or other principle that he may hold, is also, he believes, of small consequence to the public. The important thing is to state the facts fairly, and, as far as possible, their surroundings; and if, in attempting to do this, he has erred, correction shall be made as speedily as possible.

It may also be stated that the additions of figures in the tables include the cents which have been omitted. This statement is made here to avoid repetitions wherever the tables occur.

It is no small pleasure to make a grateful acknowledgment to several gentlemen for many of the books used in preparing this volume, especially to Mr. Robbins Little, Superintendent of the Astor Library, Messrs. Lloyd P. Smith, Librarian, and George M. Abbott, Assistant-librarian of the Philadelphia Library, and Mr. Stone, Librarian of the Pennsylvania Historical Society. A large indebtedness is also due to Mr. Cannon, United-States Comptroller of the Currency, Mr. Whelpley, United-States Assistant-treasurer, and W. B. Greene, for furnishing figures and verifying statements.

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BOOK I.

FROM MARCH, 1861, TO SEPTEMBER, 1865.

FINANCIAL HISTORY

OF

THE UNITED STATES.

CHAPTER I.

ADMINISTRATION OF THE TREASURY.

MARCH TO JULY, 1861.

AFTER a long era of peace the nation engaged in civil war. Dimly foreseen a long time in the growing ambition of many opposed to the Union, the war burst at last on the country with the suddenness of a volcano or a meteor's glare. The effects of the struggle, passing beyond our country, swept over the entire earth. In the first part of our work we shall turn the light of history on the financial side of this awful contest.

On the 4th of March Mr. Lincoln was inaugurated President. For secretary of the treasury he nominated Salmon P. Chase, of Ohio, and the nomination was unanimously confirmed. Horace Greeley had strongly urged the selection of Mr. Chase, because he "would command, in the highest degree, the public confidence." Mr. Chase declined the offer of the position when first tendered to him. He urged that he was not fitted for it, either by education or habits; he had just been chosen senator for a full term, and he believed

that his appropriate sphere was in the Senate.¹ Had his judgment not been swayed by the advice of his friends he probably would have remained firm in declining the offer. In the letter containing the resignation of his seat in the Senate to the governor of Ohio, he wrote, "It would be far more consonant with my wishes to remain at the post to which the people of Ohio, through the General Assembly, saw fit to call me. But the President has thought fit to call me to another sphere of duty, more laborious, more arduous, and fuller, far, of perplexing responsibilities. I sought to avoid it, and would now gladly decline it, if I might. I find it impossible to do so, however, without seeming to shrink from cares and labors for the common good, which cannot be honorably shunned."² Without any financial experience whatever, he dared "take charge of the finances of the country under circumstances most unpropitious and forbidding." Perhaps, if he had had a clearer conception of the duties of the office, he would have been less bold in accepting it. He was then fifty-two years of age.

The credit of the government had been undermined by the preceding administration. The revenues had withered away without concern, the public indebtedness had been increased, and money could be borrowed only at very high rates. When Congress met in December, "the treasury was empty—bankrupt. There was no money to pay the public creditors, who were then pressing for payment. There was not money enough even to pay members of Congress." In the middle of January, General Dix, who had been appointed secretary

¹ Letter of F. A. Conkling, who accompanied Mr. Greeley, to E. G. Spaulding. Spaulding's *Financial History of the War*, p. 83.

² Schuckers's *Life of Chase*, p. 207.

of the treasury, wrote to the chairman of the Committee of Ways and Means, "Within the last few days the amount of overdue treasury-notes presented for redemption has exceeded the power of the treasurer to place drafts in payment on the assistant treasurer at New York, where the holders desired the remittances to be made, and an accumulation of warrants to the amount of about \$350,000 has occurred, on this account, in the treasurer's hands, which he has been unable to pay."¹

The secretary of the treasury had authority to issue ten millions of treasury-notes at par, to creditors or others, at the rates of interest offered by the lowest bidder after public advertisement of not less than ten days. On the 18th of December he invited proposals for \$5,000,000 of these notes. Offers at twelve per cent, or less, were made for \$1,831,000. The remaining offers were for \$465,000, at rates ranging from fifteen to thirty-six per cent. He did succeed in raising the small sum of \$5,000,000 at twelve per cent interest.² When Secretary Chase entered the treasury department he must have speedily learned two things, the imperative need of borrowing money, and the great difficulty in obtaining it, even at high rates of interest.

¹ Letter on Condition of the Treasury, Jan. 18, 1861. Mis. Doc., No. 20, 36 Cong., second session.

² When the loan was advertised Harper's Weekly remarked: "The money is required to pay soldiers, sailors and others whose claims on the government have accumulated to this large amount, and have been left unpaid for some time. It is not supposed that the negotiation will be an advantageous one for the government. It was proposed to obtain for the bonds the endorsement of the States of New York, Pennsylvania, Ohio, and Massachusetts; and, thus fortified, it is supposed that they might have commanded par." This proposal, however, was defeated. Feb. 23, 1861.

Most of the revenue was derived from duties on imports. But this stream had fallen low. Secretary Dix informed the chairman of the Committee of Ways and Means that \$16,000,000 "would be a liberal estimate for the revenue from customs," for the first half of 1861. A new tariff law was enacted on the 2d of March,¹ but a richer yield of revenue from it could not be expected for a considerable period.

When Secretary Chase assumed office, authority existed for negotiating loans by the Acts of June 22d, 1860, and February 8th and March 2d, 1861. The first Act authorized a loan of \$21,000,000 at six per cent; but Secretary Cobb had borrowed \$7,022,000 by this authority. By the February Act he could borrow \$16,994,000 at six per cent, and bids for both loans above or below par might be accepted. The entire amount of the February loan was \$25,000,000, but the remainder had been negotiated. The authority to make the ten million loan of March 2d, 1861, was embedded in the tariff law of that date. The interest could not exceed six per cent, and the law further provided that treasury-notes bearing not more than six per cent interest might be substituted "for the whole or any part of the loans for which" the President was "now by law authorized to contract and issue bonds," including the loan last mentioned.

On the 22d of March Mr. Chase advertised proposals for a loan of \$8,000,000. Ten days were given for receiving offers. Five days afterward James Gallatin, president of the Gallatin Bank of New York, wrote² to him that the loan had "already been taken from the market within about one million of

¹ 36 Cong., second session, chap. 68. This law went into operation on the 1st of April.

² March 27, 1861.

dollars, having been absorbed by the banks for currency, or by the savings banks and individuals or institutions throughout the country as a permanent investment; so rapidly," he continues, "has this absorption gone on, that there is some probability of the million yet in market being withdrawn in the same manner before the day which you have appointed for the taking of the new loan; and there is reason to hope that, in the present state of the money market, and the growing confidence of the people in the upright intentions of the administration, you will realize within five or six per cent of par for the new, notwithstanding the terrible shock which public credit received toward the close of the late administration." Mr. Gallatin then adds, "Supposing it practicable to negotiate the loan at that price, the question arises whether to do so, or to adopt the alternative of an issue of treasury-notes at par."

At the very beginning, therefore, of his administration of the treasury office, Mr. Chase was confronted with a grave question with respect to modes of getting money. Should he issue long-time bonds for it, or six-per-cent treasury-notes of small denominations? He could procure the money needed by the latter mode at rather better rates than by the former, and this consideration weighed strongly with him. The opinions of those who pondered the subject the most carefully were divided. The newspaper press also expressed a divided opinion.

Mr. Gallatin was opposed to the issue of treasury-notes. His reasons are worth giving: "In the form of stock," he writes to the secretary, "this loan will be funded and out of the way for twenty years; but, in the case of treasury-notes, should sudden panics arise in the uncertain future, these

would be thrown in upon you for duties, and most likely at a moment when you would be heavily pressed for means to carry on the government, they would aggravate the embarrassments of the treasury. Besides, future emergencies may arise, in which the issue of treasury-notes would be the best and speediest means of supplying temporary wants. It would seem, therefore, more desirable to negotiate this loan as you have proposed, in the form of stock having twenty years to run, if you can do so, which I have no doubt you can, at a fair price—say three to four per cent above the rate obtained by the late administration for the last loan—and reserve the power of issuing treasury-notes for future contingencies.”

The total amount of bids for the eight million loan was \$27,182,000, and ranging from eighty-five to one hundred per cent. Many of the bids were at the rate of ninety-two and ninety-three per cent, or fractions of those figures. The secretary accepted bids for \$3,099,000, and the balance of the loan, \$4,901,000, consisted of treasury-notes, sold at par or above. Thus the loan was almost equally between bonds and treasury-notes.¹

This action of the secretary has been regarded by many as proof that he was a believer in *fiat* money from the very outset of his administration. Those who think so perhaps do not understand the nature of the notes issued at that time. They were made payable to the order of the persons who received them, and bore interest at six per cent, payable semi-annually, were convertible into bonds and receivable in payment of all public dues. Though circulating as a substitute for money, they were not a legal tender among individuals, and circulated by voluntary action. They were therefore very

¹ Treasury Report, July 4, 1861.

different in their nature and origin from legal-tender notes. They were, in no sense, a forced currency. Mr. Gallatin was far-seeing when he suggested to the secretary that this resource for getting a monetary supply might be prudently reserved for the most pressing occasions; but Mr. Chase's decision does not involve the principle of *fiat* money. Public opinion was divided on the question of issuing treasury-notes, and Mr. Chase sought to satisfy it by issuing bonds for a part of the loan and these notes for the balance.

On the 11th of May the secretary advertised proposals for the balance of the February loan, amounting to \$8,994,000.¹ The war had been begun by the attack on Fort Sumter nearly a month before, and this event for a short time unfavorably affected the public credit. The readiness to give life in defence of the Union was not met with an equal readiness by the wealthy in lending money for the same purpose. The amount of bonds sold was \$7,310,000, at rates which ranged from eighty-five to ninety-three per cent, and the remainder of the loan, \$1,684,000, was taken in treasury-notes at par. The proportion of treasury-notes to the amount of

¹ When this loan was offered the New York Times remarked: "Our opinion has been and is that the \$9,000,000 could be employed in payments to the public creditors in convertible treasury-bills, as during the Mexican war, without entailing loss by way of discount on the government; but deference is due to the wishes of the bankers of New York, who have on several recent occasions furnished, and again from the same public and patriotic motives propose to furnish the money in gold, and if the advice of their committee to the secretary, in favor of a funded stock to this amount, leaving the market price free to take \$14,000,000 in treasury paper at par later in the present war, is acted upon, we doubt not it will be on terms which will be justified by sound reasons of State, and not especially onerous upon or discreditable to the government." May 13, 1861.

the loan was much smaller than the proportion of them to the amount of the prior loan negotiated by him, and were largely taken by importers because they could use them in paying duties.¹

The secretary invited proposals at par for the balance of the June loan of 1860. Only three bids, aggregating \$12,000, were received, and these were "made under misapprehension." Failing to obtain money by that law, he issued, by authority of the March Act of 1861, more treasury-notes to offerers at par, and in payment to public creditors to the amount of \$12,584,550.

Such were the resources derived from loans and treasury-notes by the secretary during the first four months of the administration of his office. From customs during the last quarter \$5,515,552 had been received, beside a small addition from sales of public lands and miscellaneous sources.

¹ 44 Hunt's Mer. Mag., p. 667.

CHAPTER II.

FINANCIAL LEGISLATION OF CONGRESS.

JULY, 1861.

CONGRESS convened on the 4th of July, 1861. The representatives of the Southern States were not present, and the Republican party had a very large majority in both branches. Secretary Chase presented a report in which he considered, first, the receipts and expenditures for the year; secondly, the appropriations made and required; and, last, the modes of providing the money for them.

The amount required for the fiscal year 1862, which began on the 1st of July, 1861, was the following:

To discharge appropriations of former years	\$20,121,880 70
To discharge ordinary appropriations for the fiscal year 1862	59,588,989 38
To discharge the war appropriations	217,168,850 15
To pay treasury-notes	12,639,861 64
To pay interest on the new debt	9,000,000 00
	\$318,519,581 87

The secretary remarked that duties on imports, which were the chief source of ordinary revenue, would not furnish all the money required, and that the deficiency must be supplied from loans.¹ His opinion was, that \$240,000,000 should be

¹ "The problem to be solved," remarked the secretary in his report, "is that of so proportioning the former to the latter, and so adjusting the details of both, that the whole amount needed may be obtained with certainty, with due economy, with the least possible inconvenience, and

obtained by borrowing, and that "not less than \$80,000,000 should be provided by taxation." He recommended "only such modifications of the existing tariff as would produce the principal part of the needed revenue, and such resort to direct taxes, or internal duties or excises, as circumstances might require in order to make good whatever deficiency might be found to exist." The modifications in the tariff law proposed by him were the taxation of articles then exempt from duty, and an increase of the rate on those which were lightly taxed. The most important article under the latter head was sugar; on the free list were coffee and tea. From these sources he estimated an additional duty of \$20,000,000. Other modifications were recommended, which, if adopted, the secretary believed an annual revenue of \$80,000,000 would be realized on the return of national prosperity. But for the current year, he remarked that provision should be made for raising at least \$20,000,000 "by direct taxes, or from internal duties or excises, or from both." The Constitution required an apportionment of the former among the States in the ratio of federal population; with respect to the latter, uniformity, simply in mode of assessment and collection among the States, was necessary. The secretary also "suggested that the property of those engaged in insurrection, or in giving aid and comfort to insurgents, might properly be made to contribute to the expenditures." He also favored retrenchment in expenditures by reducing ten per cent the salaries and wages

with the greatest possible incidental benefit to the people. . . . It will hardly be disputed that in every sound system of finance adequate provision by taxation for the prompt discharge of all ordinary demands, for the punctual payment of the interest on loans, and for the creation of a gradually increasing fund for the redemption of the principal, is indispensable."

paid by the general government, the abolition of the franking privilege, and the reduction of postal expenses.

The next features of the report worth considering in this place were his recommendations for raising money by loans. The first of these was the opening of subscriptions for a national loan of \$100,000,000, "to be issued in the form of treasury-notes, or exchequer-bills, bearing a yearly interest of 7.3 per centum to be paid half-yearly, and redeemable at the pleasure of the United States after three years from date." Although the foregoing sum was specified for that form of loan, he did not intend to restrict it to "any precise limit short of the entire sum which might be required, in addition to the sums to be realized from other sources for all the purposes of the year." The above-mentioned rate of interest was "suggested because it was liberal to the subscriber, convenient for calculation, and, under existing circumstances, a fair rate for the government."

His reasons for dealing liberally with subscribers should be mentioned, in view of his action afterward in dealing with them. "It is beneficial to the whole people that a loan distributed among themselves should be made so advantageous to the takers as to inspire satisfaction and hopes of profit, rather than annoyance and fears of loss; and, if the rate of interest proposed be somewhat higher than that allowed in ordinary times, it will not be grudged to the subscribers when it is remembered that the interest on the loan will go into the channels of home circulation, and it is to reward those who come forward in the hour of peril to place their means at the disposal of their country." These were wise words, truly; what a vast burden of loss and suffering would the country have escaped had he remembered them!

If all the money needed could not be raised by that mode, the secretary proposed that bonds or certificates of debt should be issued to lenders "in this country or in any foreign country, at rates not lower than par, not exceeding in the aggregate \$100,000,000, or, if expressed in the currency of Great Britain, not exceeding £20,000,000." The bonds were to be payable after January 1, 1862, if the government desired, and might run for thirty years. Seven per cent was proposed, payable in London and at the United-States treasury.

The secretary finally recommended that provision be made for the issue of treasury-notes for ten, twenty, and twenty-five dollars each, payable one year after date, "to the amount of \$50,000,000." The rate of interest proposed was 3.65 per cent, and the notes were to be exchangeable at the will of the holder for treasury-notes or exchequer-bills, payable after three years, bearing 7.3 per cent interest, or "be made redeemable on demand in coin and issued without interest." In either form, he added, treasury-notes of small denominations might prove very useful if prudently used in anticipation of the revenue. In the closing sentence on this subject is clearly mirrored his opinion concerning *fiat* money. "The greatest care will, however, be requisite to prevent the degradation of such issues into an irredeemable paper currency, than which no more certainly fatal expedient for impoverishing the masses and discrediting the government of any country can well be devised."

Mr. Chase supposed that the war would be ended in a few months, and consequently that very heavy taxation or loans would not be needful. This was the prevailing opinion.

The secretary's recommendations were embodied in bills prepared by himself or by his direction, which accompanied

his report. On the 5th of July the speaker laid the report before the House. The portion that related to the finances was referred to the Committee of Ways and Means, and to the Committee on Commerce was referred the portion relating to the collection of the revenue from customs. Thaddeus Stevens was chairman of the former committee, and E. B. Washburne, of Illinois, of the other. Four days afterward Mr. Stevens reported a loan bill which authorized the secretary to borrow \$250,000,000. General debate thereon was limited to one hour, which was mostly occupied by Vallandigham, of Ohio, in opposing the measure. When he had finished, the bill was read and without debate was passed. It received one hundred and fifty affirmative votes. Those who voted against it were Messrs. Burnett, of Kentucky; Norton and Reid, of Missouri; Vallandigham, of Ohio, and Fernando Wood, of New York. Three days afterward the bill passed the Senate with slight amendments, in which the House concurred.¹

The secretary was authorized to issue coupon or registered bonds bearing not more than seven per cent interest, payable semi-annually, redeemable after twenty years at the pleasure of the United States, or he could issue treasury-notes in such proportions as he might deem advisable of any denomination not less than fifty dollars, and payable three years after date, with interest at the rate of 7.3 per cent per annum, payable semi-annually, and convertible at any time into twenty-years' six-per-cent bonds. As an alternative he could issue in exchange for coin, or pay for salaries or other dues, treasury-notes of a less denomination than fifty dollars, not bearing interest, and payable on demand by the assistant treasurers at

¹ Act, July 17, 1861, 37 Cong., first session, chap. 5.

Philadelphia, New York or Boston. Or, he could issue a third kind of treasury-note, bearing 3.65 per cent interest, payable in a year from date, and "exchangeable at any time for treasury-notes for fifty dollars and upwards." No exchange, however, could be made for a smaller amount than \$100, nor could a note be issued of less denomination than ten dollars; the total amount also of non-bearing interest notes was limited to \$50,000,000. Moreover, he could issue treasury-notes of any denomination specified in the law, bearing six per cent interest and payable in a year or less, to the amount of \$20,000,000. Of the bonds he was authorized to issue, \$100,000,000 could be negotiated in Europe.

This was the first law that authorized the secretary of the treasury to borrow money. For seventy years that authority had been granted to the President and secretary. Mr. Chase, perhaps, when drawing the bill, was not familiar with loan legislation. No one was opposed to the change, nor was there, in truth, any reason for burdening the President with such a duty. The loan greatly exceeded in amount any previous one, and the provisions of the law were essentially those recommended by the secretary of the treasury.

On the 5th of August¹ a supplemental bill was passed, which authorized the issue of bonds bearing six per cent interest, and payable at the pleasure of the government after twenty years from date, and for which treasury-notes bearing 7.3 per cent interest might be exchanged. That Act also provided that five-dollar treasury-notes might be issued, and that all of "a less denomination than fifty dollars, payable on demand without interest, to the amount of \$50,000,000, should be receivable in payment of public dues."

² Act, July 17, 1861, 37 Cong., first session, chap. 46.

A revenue bill embodying the secretary's views was also introduced. This provided for increasing the duty on sugar, for taxing coffee five cents per pound; black teas ten cents, and green teas fifteen cents a pound; and the duties on many articles were considerably increased, especially on brandy, distilled spirits and wines, and on silks. The bill provided for a direct tax of \$20,000,000, and an income tax of three per cent on incomes exceeding \$800. This general provision of the law was modified in several respects. Income derived from securities of the United States was taxed only one and one-half per cent; but from the income of stocks, securities and other property existing in the country owned by American citizens residing abroad, a tax of five per cent was laid. They were favored, however, like persons living here on incomes derived from national securities.

This measure occasioned a warm debate. The sentiment was intensely in favor of doing everything necessary to sustain the Union, yet the proposed expansion of the taxing power was enormous. Three distinct things were put into this law—an increase of the duties on imports, the collection of a direct tax, and of another from incomes. It was contended that the condition of commerce had so changed that the duties on some articles unless modified would prohibit their importation and consequently impair the revenue. No rates, however, were reduced, but many articles on the free list were subjected to taxation. There was more opposition to the imposition of the tax on coffee than on any other article. The secretary proposed five cents a pound; some members were very strenuous for a reduction to three. Finally a compromise was made, and the rate was fixed at four cents. From these changes it was expected that a large revenue

would flow into the treasury. The law provided that goods could remain in bond no longer than three months without paying new duties.¹

The collection of a direct tax, while regarded necessary, was a grave expedient. All the members felt the full import of this legislation. The amount was fixed at \$20,000,000, and apportioned among the States.

The objections to an income tax were not so great. If honestly collected, this tax is considered by many who have well studied the subject one of the fairest that can be assessed; but as the desire to evade it is strong and general, and the facility for doing so great, the tax, in truth, is very objectionable. The law for collecting it went into effect on the 1st of January, 1862.

Another revenue Act was passed this session, which provided for obtaining the property of those who should aid, abet or promote the "insurrection or resistance to the laws, or any person or persons engaged therein."² The additional legislation necessary for collecting national revenues in the insurrectionary States was enacted early in the session.³

One of the serious lacks of the time was an inventory of the wealth of the country, without which no intelligent judgment could be formed of the probable yield of an internal tax. At a later period William Elder, C. J. Stillé, and D. A. Wells prepared and published estimates of the national wealth. These, though only crude approximations, were helpful in several ways, especially in enabling the people to get a better conception of their capacity to endure the strain

¹ Act, Aug. 5, 1861, 37 Cong., first session, chap. 45.

² Ibid., Aug. 6, 1861, chap. 60.

³ Act, July 13, 1861, 37 Cong., first session, chap. 3.

of war. Mr. Wells's pamphlet, in particular, appeared at a gloomy time, was extensively circulated, and proved a potent tonic in reviving the drooping energies of the people.

Congress adjourned on the 6th of August, having matured and passed bills of momentous importance. The authority granted to the secretary of the treasury to raise money was far greater than any predecessor had ever had, yet events justified the action of Congress. The war curtain had been drawn from an immense stage, and the loan authorized—enormous compared with any other in our national history—was merely the beginning of a long series of borrowings. The increase in duties, though voted with reluctance by some members, was justified by the necessity for raising more money. Whatever effect this legislation may have had in stimulating home production, the sole object of it was to raise a larger revenue.

CHAPTER III.

THE ONE HUNDRED AND FIFTY MILLION BANK LOAN.

HARDLY had Congress adjourned, when Secretary Chase started for New York to borrow money. On the evening of the 9th of August a meeting was held at the house of John J. Cisco, the assistant United-States treasurer, who had been continued in office, notwithstanding the change of party administration. He had well served the government, and the President acted wisely in retaining him. When personal fitness shall be uniformly applied as a test for keeping men in office, the change will mark the beginning of a new era in national advancement more glorious in rational expectation than any era already passed.

At this meeting were assembled, beside Mr. Chase, bankers and other prominent men of New York. Mr. Coe, the president of the American Exchange Bank, suggested the practicability of organizing the banks into an efficient and inseparable body, for the purpose of advancing the capital of the country on government bonds in large amounts, and through their clearing-house facilities and other well-known expedients to distribute them in smaller sums among the people. This suggestion was heartily received, and, by request of the secretary, was presented to the representatives of a considerable number of banks, who assembled on the following day. On that occasion a committee of ten were appointed to develop the suggestion into a plan for rendering assistance to the

government. On the 15th the committee reported. Thirty-nine of the New York banks were represented; the Philadelphia banks were represented by Messrs. Mercer and Patterson; and Mr. Gray, of Boston, represented those of that city. "The report was cordially accepted and adopted by the banks in New York," while those in Boston and Philadelphia, through their representatives, "as zealously and cordially united in the organization." The co-operation of the banks of the West, though greatly desired, it was found impracticable to secure.

The following plan was adopted: There should be an immediate issue by the government of \$50,000,000 of treasury-notes, running for three years, and bearing interest from August 15th, at 7.30 per cent. The banks of New York, Boston, and Philadelphia were to unite in taking this amount at par, with the privilege of taking \$50,000,000 more on the 15th of October, and a similar amount two months later, unless the same should be previously subscribed as a national loan. The secretary was to negotiate no other government stocks, bonds or treasury-notes, except those payable on demand, and the Oregon war loan, which had been recently authorized, and was less than \$3,000,000. Negotiations in Europe, however, were not restricted by this agreement with the banks.

An appeal was to be made by the government to the people to subscribe for these notes, and the banks were to subscribe in proportion to their capital. No bank, however, could subscribe for more than one-fifth of the amount. The agreement also specified that, "as the subscriptions for the notes progress, and the moneys are paid in, the same shall be paid over to the government or deposited with banks selected by

the secretary of the treasury, with the concurrence of a committee of the associates; and so much of the proceeds of said loan, as shall be required for the purpose, shall be applied in reimbursement of the associates for subscriptions by them paid in, but not otherwise reimbursed."

The banks were to pay ten per cent of the sums subscribed forthwith to the assistant treasurers of the United States at Boston, New York, and Philadelphia, and the residue was to be placed to the credit of the United States on the books of the banks subscribing. Certificates were to be issued to each subscriber, stating the amount deposited, and, as the deposits should be withdrawn or paid into the treasury, treasury-notes bearing 7.30 per cent interest were to be issued in equal amounts to the subscribers. When the deposits were entirely paid to the United States, treasury-notes for the first deposit of the banks were to be issued, and all notes issued to the subscribers were to bear even date with the certificates and carry interest from it. The agreement provided for the formation of a committee to represent the banks in the three cities in conducting the business. The eighth section of the plan set forth that "in addition to the banks of New York, Boston, and Philadelphia, it would be desirable that other parties should become associates, say, trust companies, savings banks, insurance companies, and private bankers, who, in lieu of *pro rata* of capital, should designate, when joining the association, what amount of interest they decide to take."¹

As soon as Mr. Chase had finished his negotiations with the banks, he returned to Washington and provided for "immediate exigencies" by issuing to public creditors who would receive them, or for cash, six-per-cent treasury-notes,

¹ 16 Bank. Mag., p. 161.

\$14,019,034 of which were payable in two years, and \$12,877,750 in sixty days.¹ Meantime, to ensure the success of the bank loan, the expedient of issuing clearing-house certificates, and of appropriating and averaging all the coin in the various banks as a common fund, was adopted. This action was a continuation of the policy adopted by the banks in November, the previous year. At that time, foreseeing the future, they "deemed it wise to band themselves together, putting their coin into a common fund, and otherwise aiding each other, so as to enable them best to sustain their dealers, and by joint action to relieve the wants of the government, if it became necessary, to the largest possible extent."² Such a vast financial undertaking had never been attempted before in this country, nor was ever a similar one matured and put into execution so quickly.

At the time of executing this agreement with the secretary of the treasury, "the credit of the government had become impaired to such a degree that a large loan could not be obtained in any ordinary way, nor even a small temporary loan, except for a very short period, at a high rate of interest.

¹ Ann. Treas. Report, 1861.

² Report of the Loan Com. of the Associated Banks, p. 11. The committee added that they believed the objects proposed by the banks at that time had been very fully obtained. "That in the future the banks will look back with just pride to the record of the past, borne by them in the most critical and eventful period known in the history of the country; and that they may justly claim that by their foresight in organizing themselves, and their prompt action for the support of the government at the darkest moment of the past year, when they placed more than their entire capital at its command, almost without hope of profit, with ruin staring them in the face in the event of loss, that they did much to save the government from being overthrown and the country from being dismembered."

Men's hearts failed them ; the rebellion was upon so large a scale, and had so unexpectedly broken out, and raged with such fury, that to subdue it seemed to most persons to be impossible. After careful deliberation and consultation with the secretary of the United-States treasury, the banks decided it to be wise for them to depart from their usual and legitimate business and sustain the government credit, and stand or fall with it. The Act restored the public confidence, and was the highest endorsement of the public credit that could then have been given."¹

The bank capital thus associated aggregated \$120,000,000, exceeding the capital of the Bank of England and the Bank of France. The banks that joined in the movement possessed the needful capacity for accomplishing the end, yet were free from the objection of acting as a single great corporation. Their financial condition was :

	LIABILITIES.		ASSETS IN COIN.
	DEPOSITS.	CIRCULATION.	
Banks of New York.....	\$92,046,308	\$8,521,426	\$19,733,990
Boston.....	18,235,061	6,366,466	6,665,929
Philadelphia.....	15,335,838	2,076,857	6,765,120
	\$125,617,207 ²	\$16,964,749	\$63,165,039

¹ Report of the Loan Com., p. 32. "When the banks agreed to advance their millions to the government, they did so without hope or expectation of profit from it, and they earnestly sought to obtain from the government the assurance that they should be indemnified from loss. It was not until five months after taking the first loan, and two months after taking the third, . . . that there was any reason to expect the securities to command in the market a price higher than that at which they had been taken."—*Ibid.*, p. 32.

² Their aggregate capital at that time was \$120,000,000, New York banks having \$70,000,000; Boston, \$38,000,000, and Philadelphia, \$12,000,000.

They had therefore \$63,165,039 in coin to meet \$142,381,956 of liabilities, or forty-five per cent of the whole amount. "Surely," says a very high authority,¹ "such conditions as these, with judicious administration, were adequate to the work which the country required. A great merit of this bank combination at that critical moment, when the life of the nation hung in the balance, consisted in the fact that it fully committed the hitherto hesitating moneyed capital of the North and East to the support of the government. The bank officers and directors who thus counseled and consented were deeply sensible of the momentous responsibility which they assumed, but all doubt and hesitation were instantly removed, and perfect unanimity was secured by the question, 'What, if we do not unite?' And, acting as guardians of a great trust exposed to imminent danger, they fearlessly elected the alternative best calculated to protect it."

The problem for the banks to solve was, how could the available capital be drawn from the people and devoted to the support of the government with the least disturbance to the country, and by what means could arms, clothing, and subsistence for the army be secured in exchange for government credit. As these transactions were simply home exchanges, bank checks, deposits and transfers, the ordinary instruments of trade, were the best means for effecting them. To transact this business the most effectively the preservation of a specie standard by the banks was necessary, and this end in turn necessitated the least possible change in the coin reserve.

"Accordingly, it was at once proposed to the secretary that he should suspend the operations of the sub-treasury Act (which required that nothing but coin should be accepted

¹ Geo. S. Coe, Spaulding, Appendix, p. 89.

for any obligations due to the government) in respect to these transactions, and, following the course of commercial business, that he should draw checks upon some one bank in each city representing the association, in small sums, as required in disbursing the money thus advanced. By this means his check would serve the purpose of a circulating medium, continually redeemed, and the exchanges of capital and industry would be best promoted. This was the more important in a period of public agitation, when the disbursement of these large sums exclusively in coin rendered the reserves of the banks all the more liable to be wasted by hoarding. To the astonishment of the committee who represented the associated banks, Mr. Chase refused." The sub-treasury law had been suspended on the 5th of August, so far as to permit the secretary of the treasury to deposit any money obtained from loans then authorized by law to the credit of the treasurer of the United States, in such solvent specie-paying banks as he might select; and the money thus deposited might be withdrawn for deposit with the regular authorized depositories, or for the payment of public dues, or paid in the redemption of the notes authorized to be issued under that Act, or the Act to which it was supplementary, payable on demand, as might seem expedient to, or be directed by, the secretary of the treasury.¹ This law was passed for the purpose of enabling the secretary of the treasury to adopt the policy recommended by the banks, but Mr. Chase declared, "upon his authority as finance minister, and from his personal knowledge of its purpose, that the Act had no such meaning or intent." Yet he was unquestionably wrong, and we can discover no ground on which his declaration can securely rest.

¹ 37 Cong., first session, chap. 46, sec. 6.

Mr. Spaulding says that the primary object which Mr. Appleton and himself had in view in preparing the law, "was to relax the rigid requirements of the sub-treasury Act in regard to the receipt and disbursement of coin, and instead of paying solely from coin deposits in the treasury, to allow all the money obtained on these loans to be deposited in solvent banks; the United-States treasurer to draw his checks directly on such deposit banks in payment of war expenses, which checks would be paid in State-bank notes then redeemable on demand in gold, or in the ordinary course of business. To a large extent, they would pass through the New York Clearing-house and the clearing-houses of other cities, and be settled and cancelled by offset, without drawing large amounts of specie." The statement of Mr. Spaulding, who prepared the Act, must be regarded as the highest authority in this matter, consequently the declaration of the secretary cannot stand in the court of history.

The bank committee clearly saw the importance of exercising the authority conferred on the secretary by the above-mentioned Act to alter the mode of receiving and disbursing the public money. "The subject," says Mr. Coe, "was discussed from time to time with much zeal, but always with the same result. To draw from the banks in coin the large sums involved in these loans, and to transfer them to the treasury, thence to be widely scattered over the country at a moment when war had excited fear and distrust, was to be pulling out continually the foundations upon which the whole structure rested. And inasmuch as this money was loaned to the government, and was in no sense trust reposed in the banks, there appeared to them no reason why it should not be drawn by checks in favor of government contractors and creditors, who

would require to exchange them for other values in commerce and trade through the processes of the clearing-house. And this consideration was greatly strengthened by the fact that these advances were made and the money publicly disbursed a long time before the treasury-notes were ready for delivery to the banks which had paid for them."

The inquiry is pertinent for what purpose did Mr. Chase suppose the Act in question was passed, and why was he so unwilling to take advantage of it in receiving and paying the public money? One reason, doubtless, was, he did not comprehend the importance of transacting the public business in the mode recommended by the banks, and for which the law had provided. Mr. Chase was emphatically a "hard money" man; he well knew the evils caused by using any other medium of payment, and he believed the government could continue to do business on a purely specie basis. He did not in the least comprehend that the vastly greater payments required an entirely different mode of making them. The banks were far wiser than the secretary.

Another reason for Mr. Chase's aversion to receiving bank-notes was not wholly without foundation. Many of these institutions, particularly in the West, whence Mr. Chase came, had issued their notes with great recklessness. The banks in New England and the Middle States had been much more prudent and their circulation was safe. But many of the Western banks had issued theirs on the security of Southern State bonds which, after the war began, were at a heavy discount.¹ They were not required to keep a reserve of specie.

¹ 16 Bank. Mag., pp. 5, 485, 486. Gov. Yates, of Illinois, remarked in his message to the Legislature in January, 1863, "The outbreak of the present unexpected rebellion found us with a circulation of bank-notes under our

If the New-York banks, when dealing with Mr. Chase, erred in judging too highly of the confidence that ought to be given to the banks throughout the country, Mr. Chase erred far more in regarding all banks like the Western ones with which he was familiar, and whose record did not indeed justify the bestowal of much public confidence.

Nevertheless the banks yielded, though they "would have conferred an incalculable benefit upon the country had they adhered inflexibly to their own opinions." But why did they yield when they saw so clearly the need of adopting the policy recognized by Congress, when authorizing the secretary to suspend the operations of the sub-treasury law? "The pressure of startling events," says Mr. Coe, "required prompt decision, and the well-known intelligence and patriotism of the secretary gave to his judgment overwhelming power."

Notwithstanding the unwillingness of the secretary to accept bank-notes and to employ the machinery for discharging obligations which the banks had perfected, he was not averse to the issue of demand-notes by the government, though having no coin to redeem them, and dependent on the banks for a supply. Early in August they were put into circulation by paying them to the clerks of the department for salaries, and to other creditors of the government. There was genuine reluctance to receiving them, and, in order to give them credit, the secretary and his assistant and other leading officers of the treasury department signed a paper agreeing to accept them in

banking-law of over \$12,000,000, secured by State and United-States stocks to the amount of over \$13,000,000. About three-fourths of this sum was made up of stocks of the Southern States." As their credit was largely destroyed when they rebelled, their stocks depreciated in value, forty, fifty, or even more per cent.

payment for their salaries. "The merchants and shop-keepers at Washington sought to discredit them ;"¹ some of the railroads declined to take them in payment of fares and freight,² and the banks plainly saw that coin payments could not be maintained if the transfers from them were to be intercepted and absorbed by the government. Nor could the banks receive such notes on deposit from the public as money while they were responding to the government and to their own dealers in coin. To the banks this was inflation in the most

¹Schuckers, p. 224. Mr. Schuckers adds, in a note (p. 225), that he "probably brought the first of these notes to Philadelphia, and experienced a considerable difficulty in inducing the acceptance of one of them at the Continental Hotel. About the time of the suspension of cash payments, a wealthy New Yorker came into the possession of a large sum—approximating to one million of dollars—in demand-notes. He offered them for deposit in a leading bank in New York, the officers of which refused to receive them, however, in the ordinary course of their business, or in any other way than as a special deposit. Having no alternative, the gentleman reluctantly consented. The demand-notes being receivable for customs the same as coin, kept pace *pari passu* with the advance in the price of coin ; and when the depositor in the — bank withdrew his deposit, demand-notes were worth nearly or quite one hundred and fifty per cent premium, measured in legal tenders !"

²Sec. Chase wrote, in his letter to the Committee of Ways and Means: "The making them a legal tender might, however, still be avoided if the willingness manifested by the people generally, by railroad companies, and by many of the banking institutions to receive and pay them as money in all transactions, were absolutely or practically universal ; but, unfortunately, there are some persons and some institutions which refuse to receive and pay them, and whose action tends, not merely to the unnecessary depreciation of the notes, but to establish discriminations in business against those who in this matter give a cordial support to the government, and in favor of those who do not."—*Cong. Globe*, Feb. 4, 1862, p. 639. Opinion was much divided on the subject of issuing them. The banks generally were opposed to this step.

embarrassing form. The secretary, therefore, was strongly solicited to refrain from exercising the discretionary power given to him to issue such notes until other means were exhausted. The secretary assured the banks of his acquiescence in their recommendation, but insisted that it was improper for a public officer to pledge himself openly not to exercise a power conferred by law.¹ This statement was satisfactory to the banks, and they began to pay into the treasury in coin at the rate of about five million dollars at intervals of six days. As long as the secretary kept the treasury-notes out of the channels of circulation, the disbursements of the government were so rapid, and the movements of trade so intense, that the coin paid on each installment of the loan came back to the banks through the people in about a week.

After taking, but before paying, the third installment of \$50,000,000, the associated banks were in a strong position, and had not lost much specie. "It may be confidently affirmed that had the banks been permitted to exercise their own methods of exchanging the bonds [*i. e.*, the 7.30 notes] for the varied products of industry required by the government, they could have continued their advances in sums of fifty millions

¹ James Gallatin wrote to Mr. Chase, Sept. 12, 1861: "When the proposed system of raising means by the banks was reported by a committee of ten, they were almost unanimously in favor of affixing to it a condition that government should not issue demand-notes. That condition was only yielded from a reluctance to endanger or embarrass your appeal in so solemn a crisis, and because of your remonstrance against being compelled to give an official pledge against the use of a legal enactment; and still further, because of your assurance that it would only be resorted to when other means of raising money should fail. The banks, therefore, feel the most implicit confidence that these issues will be confined to a very inconsiderable sum, and not be extended beyond a small amount, for which a specific fund will be pledged."—16 *Bank. Mag.*, p. 354.

for an indefinite period, and until the available resources of the people had been all gathered in."

When the secretary made his annual report on the 9th of December, he remarked that the objects of his arrangement with the associated banks were: 1. To place at the command of the government the large sums immediately needed for the payment of maturing treasury-notes, and for other disbursements, ordinary and extraordinary; 2. To secure to the people equal opportunity with the banks for participating in the loan; 3. To avoid competition between the government and the associated institutions in the disposal of bonds; 4. To facilitate and secure further advances to the government by the associates, if required; and, 5. To insure, if possible, the maintenance of payments in specie, or its actual equivalents and representatives. All these objects, he continued, had been happily accomplished.

The secretary faithfully sought to execute his agreement with the banks to borrow money from the people. An appeal¹ was made to them, and subscription books for a loan were opened in all the chief towns and cities of the loyal States. One hundred and forty-eight agents were appointed, who received one-fifth of one per cent on the first one hundred thousand dollars of subscriptions, and one-eighth of one per cent on additional amounts. Beside these commissions, a sum not exceeding one hundred and fifty dollars was allowed for advertising in a locality. The subscriptions received through these agents amounted to \$24,678,866. The assistant treasurers and designated depositaries of the treasury department sold a considerable quantity of notes, but the total subscriptions were insufficient to reimburse the banks, and the balance of the first fifty million loan was paid to them in seven-thirty notes.²

¹ 16 Bank. Mag., 290.

² Report of the Loan Com., p. 14.

The time had not yet come to float a "popular loan." Capital is usually timid in face of war. Nevertheless the banks of New York, Boston, and Philadelphia had set an example of loyalty and daring which the people ought to have imitated. Though capital was abundant, the owners hesitated to subscribe.¹ Moreover, the difficulties of conducting the business by the treasury department were very great. In discharging the second installment of \$50,000,000, the banks agreed with the secretary to take the seven-thirty notes, intending to sell them to the people. The accounts with the subscription agents therefore were closed, and the secretary simply delivered the notes to the banks and received the money for them.²

The third installment was negotiated with the associated banks on the 16th of November. The secretary agreed to issue \$50,000,000 in six-per-cent bonds to them, at a rate equivalent to par, for bonds bearing seven per cent interest. This negotiation, though less favorable to the government—considered purely as a money transaction—than the two prior loans, in some respects was more advantageous. There was no contract for reimbursement, and no immediate expense to the

¹ "It is a noticeable fact that forty-five out of the fifty millions (of the first installment above mentioned) were disposed of to the public as soon as practicable, at the cost price, without a dime's profit to the banks; the people now being inspired with the necessary confidence by the fact that the associated banks trusted the government."—*Letter of J. E. Williams, Pres. of Metropolitan Nat. Bank, to W. D. Kelley*, Feb. 14, 1876. At first the people subscribed quite freely for the bonds, and in September James Gallatin wrote cheerily to the secretary: "The plan so wisely adopted for supplying the treasury by distributing the loan through the medium of banks is meeting a success exceeding all reasonable expectations."—16 *Bank. Mag.*, p. 357. The public demand, however, did not long continue.

² Schuckers, pp. 227, 229, 342. Rep. of Loan Com., p. 16.

treasury beside preparing and issuing the bonds. An option also was given the associated banks to make a fourth advance of \$50,000,000, after the 1st of January, on the same terms as the first and second advances, if required by the secretary.

Although the secretary had assured the banks that he would not issue United-States notes payable on demand until other ways of getting money were exhausted, he treated the matter very lightly, for in November he began to issue such notes freely and without adequate cause, and he soon caused embarrassment among the banks, as had been predicted. The banks were pressed to receive the notes on deposit, and could not refuse without diminishing public confidence in the government credit; nevertheless, they could not give currency to them without impairing their own specie strength. The notes could be safely received only as a special deposit, which was not popular.¹ The holders therefore demanded specie for them, and the consequence was either its

¹Mr. Geo. S. Coe, president of the American Exchange National Bank of New York, in describing, at a meeting of the Am. Bankers' Association, in 1877, the consequence of Mr. Chase's action in issuing these demand-notes, said: "These notes were irredeemable from the start. . . . The treasurer had no money except that which the banks furnished, and, of course, it was impossible for him to issue a redeemable note. These notes were brought to the banks for deposit. We were requested to take them of our customers as money, and to allow them to draw against them in coin. . . . The very first week that they were issued we found it quite impossible to take them into our solvent currency. . . . It was substantially like diluting a sound metallic currency with so much copper. You will see at once that the moment we introduced a thing not solvent into the solvent mass, we admitted a minus into a plus quantity. . . . We continued this until the 31st of December, 1861, and it was then found that so much of the insolvent had become incorporated into the solvent, that we could not go on and pay gold and receive something of lower value."—*Proceedings*, p. 24.

withdrawal or less active circulation than before. During three weeks from December 7th, the reserves of the banks in New York fell to \$29,102,715,¹ a loss of \$13,000,000 within that short period, and, on the 28th of December, after conference with the secretary, in which he persisted in adhering to his policy, the banks voted to suspend specie payments on the succeeding Monday. They clearly saw that their gold would soon disappear, and their suspension would be inevitable, and so they wisely decided to shut down the gates at once and save the gold yet remaining.² As the payment of

¹ "From the 17th of August, 1861, to the 4th of January, 1862, the specie was decreased \$25,750,112, in the New-York banks."—*Rep. of Loan Com.*, p. 35.

² "With an imperative demand on the one hand, and with diminished resources on the other, it became a question whether depletion should be allowed to proceed to its utmost limit, or whether the connection between the banks and the treasury should be broken in season to secure to the former, for ultimate use, so much of specie as still remained in their vaults. It was under these circumstances that the banks in New York resolved to suspend specie payments."—*Annual Rep. of Banking Sup. of N. Y.*, 1862. James Gallatin said, at the meeting of bank officers who, on the 28th of December, 1861, voted to suspend specie payments: "The government must suspend specie payments, or we must; and it is only a question of a few more days' time as to who suspends first, and who shall hold the specie in our vaults. If we hold it, the people and the government will be alike benefited. If government takes it, the whole will be expended and hoarded by a few people. Indeed, the question for us to consider, as trustees of the people, now is, How much, if anything, can we help to preserve of the values which the approaching tornado of paper money threatens to sweep away? . . . In order to preserve a basis for future values, we should endeavor to get and keep as much coin as possible, upon which to resume specie payments, whenever that can be done with safety. Contraction, for that purpose, must eventually be resorted to, and the more coin we have on hand the less severe will be the contraction."—*16 Bank. Mag.*, p. 627.

specie by the government depended on the action of the banks, it, too, suspended specie payments at the same time,¹ followed by the banks throughout the country.

Thus, the policy of the treasury in requiring payments to be made in coin, contrary to the advice of the banks and the intention of Congress expressed in the repeal of the sub-treasury law, and in issuing demand treasury-notes though advised to do otherwise, speedily brought the secretary to the end of his road. He had repeated the experiment tried by the French finance minister Colonne in 1787, with the same result and in the same brief time. Unhappily, he dragged the banks down with the treasury,² and entailed a long train of evil conse-

¹ The amount of demand treasury-notes then in circulation was \$33,460,000. Annual Treas. Report, 1862, p. 9.

² Mr. Van Dyck, bank superintendent of New York, said, in his annual report for 1862: "To their credit [the banks], be it spoken, met the exigency with a patriotism and liberality that excited surprise at home and abroad. Had they been met with a corresponding spirit on the part of those in authority; had the burdens assumed been mitigated by prompt action on the part of the government in the delivery of its securities; had the rigors of the sub-treasury system been mitigated by the use of the banks as depositories for loans, to be disbursed in the usual manner, through the use of checks, notes, and the usual credits, as the demands of the government might have required, there is every reason for believing the banks would not have been driven to the exigency of breaking faith with the public in respect to the redemption of their notes in specie. Even as it was, they scrupulously fulfilled their engagements with the government, and on the 4th of February, 1862, made their final payment on the \$35,000,000 loan of November 16, 1861, although, at the date of such last payment, but \$7,000,000 of the securities to be furnished had yet to be received. Nor was such payment made, as had been alleged on the floor of Congress, in the depreciated notes of the bank, but in coin and government notes, many of the latter being of the class receivable for customs."

quences on the country, among the greatest of which was the untimely recourse to legal-tender notes, the history of which will be soon given. Their issue would certainly have been delayed had he adopted the policy recommended by the banks, and the evil effects flowing therefrom would have been far less than those which followed.

On the other hand, if the banks had not hesitated to employ the demand treasury-notes like their own, the suspension of specie payments would have been deferred. If the banks had received them on general deposit, they would have circulated like other notes. The effect of such action, it is true, would have been to increase their responsibility. And why should they be blamed for declining to assume this burden, since they could gain nothing by carrying it? They had already done much for the government; far more, probably, than any of their accusers. Many banks doubtless desired to furnish the paper circulation needed by the country, and looked with disfavor on any attempt of the secretary to invade their field, and declined to receive the government notes, in order to maintain their position more securely. The secretary seemed determined to push the demand-notes into circulation, either supposing the banks would accept them in direct competition with their own notes, or expecting to draw their specie from them when paying the \$150,000,000 loan, with which he could redeem the notes issued by the government. He must have seen that his policy was directly opposed to the interest and safety of the banks. If they received the government notes, the paper circulation was expanded while the specie basis remained the same, thus endangering their own safety, and without getting the smallest benefit. If he drew specie from them, the greater the

amount the more quickly he could force them to suspend. Sir Robert Peel's father wrote to Parliament, in 1826, "Gold, though in itself massy, often disappears in consequence of war, or speculation, nay, the breath of rumor itself is sufficient to disperse it." Mr. Chase's knowledge of the important part gold played in sustaining our financial system was of a cruder kind. If the banks had accepted the \$50,000,000 of demand-notes, and Congress had stood firmly against further issues, this increase would have produced no serious result, and the question may be fairly asked, Were not the banks hasty in concluding that this "emission expressed a purpose of resorting to government paper issues to carry on the war"?¹

At the time of suspending specie payments the banks could have continued their advances to the government had the secretary adopted the policy they recommended. He was "apparently unconscious of the resources of the banks, through the aid of bills of exchange, certificates of deposit,

¹ Letter of George S. Coe on our early Financial War Measures. Spaulding, Appendix, p. 93. Amasa Walker asserted that specie payments could not have been maintained much longer, and that Mr. Chase pursued the right policy. "Blame has been thrown upon Mr. Chase for this suspension, but quite unjustly. That he might by some arrangement with the banks, in regard to the circulation of their notes, have postponed the suspension for a short time, we do not doubt; but it could not long have been avoided. Mr. Chase had a broken-down currency to start with. The banks of the United States, on the 1st of January, 1861, had \$459,000,000 of immediate indebtedness, while they held but \$87,000,000 of specie, equal to but nineteen cents on the dollar. How was it possible to go through a great war with a currency of so little strength? It could not be done. Suspension was inevitable."—52 *Hunt's Mer. Mag.*, p. 24, Jan., 1865. Mr. Sherman said in a speech in the Senate, Feb. 27, 1865, "I still think that with the closest economy and heavy taxes from the beginning we might have borrowed money enough on a specie basis to have avoided specie payments."—*Speeches*, p. 81.

drafts and checks, as well as notes, for the transaction of any volume of business yet required by the exigencies of the country." Were not payments to the amount of twenty millions daily effected in New-York City without coin and notes? The daily settlement of an additional million or so of government indebtedness could have been easily and safely effected by employing the same machinery. Before entering into the conference with the banks on the 28th of December, some of the members endeavored to impress on the secretary the importance of continuing his relation to an organization which combined so much experience, capital, and financial resource, and which was capable of rendering to the government invaluable services. If an irredeemable paper currency were inevitable, it would be more expedient, it was contended, and more economical, for the government not to become involved with the banks. As a suspension of coin payments was soon to be declared, it was practicable to preserve from distribution the forty millions of coin then owned by the banks, while the one hundred and fifty or sixty millions of government bonds held by them could be used as a special security for \$200,000,000 of notes which could be immediately issued by the associated banks from their own plates, and be verified and made national by the stamp and signature of a government officer. Thus supported by coin and bonds, the notes would serve the temporary purpose required, with little, if any, deterioration below coin value, and the banks could continue without difficulty to make their advances. But the secretary declined to entertain the recommendation, preferring the system of national banks, which he had just recommended in his report to Congress.

In the light of subsequent events, Mr. Coe is fully justified

in saying that "it must be admitted that this suggestion possessed true merit. It would have preserved," he affirms, "a coin basis for the currency, prevented the destructive expansion, relieved the government from its almost inextricable entanglement with the circulating notes, and compelled an early restoration of coin payments. And, with a proper use of the expedients and machinery of banks, by utilizing their form of effecting exchanges, which was subsequently applied by the secretary in the national banking system without reserve, this amount would have been found sufficient. When we review the excessive cost of the war, the vast increase of the national debt, and the public and private evils which a profuse currency have entailed upon the country, it must appear evident that, in failing early to use and to exhaust all those means and appliances of commerce and banking that the experience of other civilized nations have proved most effective, a great and irreparable mistake was made."

At the very beginning, therefore, Secretary Chase, disregarding the advice of men far wiser and not less patriotic than himself, committed two great errors and which resulted in his precipitating the issue of legal-tender notes.

In his next annual report, after mentioning that when he made his recommendations the year before, the banks had not suspended specie payments and there was reason to believe that the means for suppressing the rebellion would be obtained without resort to any other currency than that of coin and equivalent notes, he remarked that military delays, increased expenditures and "diminished confidence in public securities, made it impossible for the banks and capitalists who had taken the previous loans to dispose of the bonds held by them

except at a ruinous loss, and impossible for the government to negotiate new loans of coin except at a like or greater loss. These conditions made a suspension of specie payments inevitable." If, when writing his annual report in 1861, he supposed that the government could maintain specie payments, he was not so wise as the banks; for "it became painfully certain to them" before his report appeared that an adherence to his policy "must inevitably lead to a general suspension of specie payments." He steered the treasury directly toward the breakers, not knowing where he was going. He was told that if he persisted in issuing treasury-notes he would inevitably cause a suspension of specie payments; but like his forerunner Demos in the *Knights of Aristophanes*, who was besought by them with strong reasons to return to his right mind, Mr. Chase distrusted his advisers and continued in his course until he could go no further.

It has been maintained that the specie in the banks rightfully belonged to the holders of their notes, and therefore ought to have been used in redeeming them. The banks, it may be answered, did expect to redeem their notes; they had no intention of permitting the holders to suffer. They reluctantly decided to delay payment, but were confident that their notes would not depreciate in value. It was their duty to deal justly by all, and if they had determined to redeem their notes until exhausting their specie, the consequence would have been the redemption of the notes first presented, and a failure caused by lack of coin to pay the remainder. This would not have been fair treatment of the noteholders. The notes of the State banks were redeemed in those of the government.

The associated banks had invested more than their capital

in the obligations of the government, and at the time of their suspension had not sold them.¹ They were a heavy weight, but which would have been cheerfully borne had the secretary of the treasury shown either more wisdom or more willingness to learn from others in executing the duties of his office. The banks, when making this loan, had not a thought of making large profits. Their chief desire was to aid the government; and this they did when its credit was lowest and when individuals prudently refrained from lending. Fortunately, the loan proved profitable,² and then the banks were regarded like the "eight-per-cent patriots" of John Adams's time. It is not so easy to negotiate a national loan before a war as after its successful ending; yet the banks, to their eternal honor, contracted this engagement, by far the largest of the kind ever made by our government, and faithfully fulfilled it amid the gloom that enveloped the country, and with the painful consciousness that the head of the treasury department, though possessing unquestioned integrity and political soundness, was neither skilled nor teachable in the momentous matters of national finance.

¹ At the meeting of bank officers, December 28, 1861, when they voted to suspend specie payments, James Gallatin said: "We are now loaded down with government securities, which we cannot sell."—16 *Bank. Mag.*, p. 627.

² The secretary wrote to Mr. Cisco, United-States treasurer at New York, May 24, 1862, "That the result to the banks of their advances to the government has more than realized the anticipations expressed by me to them is a source of great satisfaction to me; but it does not at all diminish my estimate of the value of their support of the government by large advances at a time when that result was regarded by the best judgments of the country as more than doubtful."

CHAPTER IV.

THE ISSUE OF LEGAL-TENDER NOTES.

Two days after the banks and the government suspended specie payments, a bill was introduced into the lower House of Congress providing for the issue of demand treasury-notes, and declaring them to be a legal tender in payment of debts. The bill, though, was more than forty-eight hours old when introduced. Ever since the presentation of the secretary's annual report, a sub-committee of Ways and Means had been preparing a bill to create the national bank system recommended by Mr. Chase, but, while thus engaged, concluded "that it would not be passed and made available quick enough to meet the crisis then pressing upon the government for money to sustain the army and navy." Mr. Spaulding, one of the members, drafted a legal-tender treasury-note section, "hoping, at first, that it might be made available by issuing legal-tender notes direct from the treasury, while the bank-bill was put in operation throughout the country." This section of the bill read: "For temporary purposes, and until the circulating notes authorized by this Act shall be issued and put into circulation by corporations and associations, to the aggregate amount of \$100,000,000, the secretary of the treasury be, and he is, hereby authorized to issue \$50,000,000 of treasury-notes on the faith of the United States, payable on demand, without specifying any place of payment, and of such denominations as he may deem expedient, not

less than five dollars each, which shall be receivable for all debts and demands due to the United States, and for all salaries, dues, debts and demands owing by the United States to individuals, corporations and associations within the United States; and such treasury-notes shall also be a legal tender in payment of all debts, public or private, within the United States, and shall be exchanged at any time at their par value the same as coin, at the treasury of the United States and the offices of assistant treasurers in New York, Boston, Philadelphia, St. Louis, and Cincinnati, for any of the coupon or registered bonds which the secretary of the treasury is now, or may hereafter be, authorized to issue; and such treasury-notes may be re-issued from time to time as the exigencies of the public service may require.”¹

The foregoing section was eliminated from the bank-bill and introduced into the House as a separate bill on the 30th of December, and referred to the Committee of Ways and Means.

The committee consisted of nine members. Beside the chairman, were Justin S. Morrill, of Vermont; John S. Phelps, of Missouri; Elbridge G. Spaulding, of New York; Valentine B. Horton, of Ohio; Erastus Corning, of New York; Samuel Hooper, of Massachusetts; Horace Maynard, of Tennessee, and John L. N. Stratton, of New Jersey. No speaker could have made a better selection.

During the war of 1812, when the public credit had become impaired, a bill authorizing the issue of legal-tender notes was introduced into Congress, but promptly rejected. Mr. Dallas,

¹ The latter portion of the section related to signing the notes, and re-enacted the law of December 23, 1857, authorizing the issue of treasury-notes so far as it did not conflict with the foregoing enactment.

who was then at the head of the treasury department, wrote to the Committee of Ways and Means, "that the extremity of that day cannot be anticipated when any honest and enlightened statesman will again venture upon the desperate expedient of a tender law." The dreadful effects of submerging the country with legal-tender paper money during the Revolution were vividly realized by him; nor had they in truth, even in his time, entirely passed away. In 1839, Erskine Hazard, editor of the "United States Register,"¹ urged, in his paper, and in letters to members of Congress, the issue of national legal-tender notes to the States in proportion to their representation. They were to be deposited by each State in its banks as a basis for bank circulation in place of gold. Happily, the country was spared many years from the use of this expedient.

As soon as Mr. Spaulding's bill was printed "it was taken up in the Committee of Ways and Means and duly considered. Mr. Hooper took active ground in favor of the bill. Mr. Stevens, at first, had some doubts about its constitutionality, but very soon decided to support the measure. Mr. Morrill, Mr. Horton and Mr. Corning actively opposed the bill in the committee and in the House. Mr. Maynard and Mr. Stratton took no active part in the discussions while the bill was under consideration in the committee. It is believed, however, that Mr. Maynard was favorable to the bill from the start, while Mr. Stratton was very much in doubt what course he would take in relation to it, either in committee or in giving his vote in the House. Mr. Phelps was absent, and took no part while the bill was under discussion in the committee. The committee, therefore, were quite equally divided over the measure."

¹ Vol. i. pp. 139, 270.

One of the questions which troubled the committee was a constitutional one. The attorney-general, Edward Bates, was asked for his opinion, and, though declining to give it, wrote an unofficial note, in which he maintained that "the Constitution contains no direct verbal prohibition, and I think it contains no inferential or argumentative prohibition that can be fairly drawn from its expressed terms. The first article of the Constitution, section eight, grants to Congress specifically a great mass of power. Section nine contains divers limitations upon Congress, upon the United States, and upon individuals; and section ten contains restrictions upon the several States. This last section is the only one that treats on tender. 'No State shall make anything but gold and silver coin tender in payment of debts.' This applies to a State only, and not to the nation; and thus it has always been understood with regard to the next preceding clause in the same section. 'No State shall emit bills of credit.' The prohibition to emit bills of credit is quite as strong as the prohibition to make anything but gold and silver coin a legal tender; yet, nobody doubts—Congress does not doubt its power to issue bills of credit. Treasury-notes are bills of credit, and I think the one is just as much prohibited as the other—neither is forbidden to Congress."

When the committee first voted on reporting the bill they were evenly divided. Mr. Stratton finally consented to vote in favor of the measure so that it might be reported to the House. In this way the bill passed through the Committee of Ways and Means. No essential alteration had been made, except to increase the amount of notes to \$100,000,000.

Immediately after introducing the bill, the voice of the critic was heard in many places. Mr. Spaulding, in replying

to one, declared that the committee advocated the measure not from "choice," but from "necessity." In his letter, which was dated the 8th of January, he briefly set forth the condition of the finances at that time. "We will be out of means," he says, "to pay the daily expenses, in about thirty days, and the committee do not see any other way to get along till we can get the tax-bills ready, except to issue, temporarily, treasury-notes. We must have at least \$100,000,000 during the next three months, or the government must stop payment. With the navy, and an army of 700,000 men in the field, we cannot say that we will not pay." The necessity for passing the measure became more and more apparent, and many who at first were opposed to it changed front. This was notably the case with many of the most influential journals. Congress could devise no other way for getting the money needed soon enough, and money, of course, must be had to sustain the war.

Delegates from the banks visited Washington and met the secretary of the treasury at his office.¹ At the meeting, the banks of Boston, New York, and Philadelphia were represented, most of the members of the Finance Committee of the Senate were present, as well as the House Committee of Ways and Means, the secretary of the treasury, and other gentlemen representing boards of trade of various cities.

The action of the Committee of Ways and Means in reporting the legal-tender bill was the cause of their assembling. James Gallatin, President of the Gallatin Bank of New York, made the principal speech against issuing legal-tender notes, and on behalf of himself and those representing the banks of the three cities mentioned, and of the boards of trade, submitted the following plan for raising money to carry on the war:

¹ January 11.

1. A tax-bill to raise, in the different modes of taxation, \$125,000,000 over and above duties on imports.

2. No demand treasury-notes were to be issued, except those authorized at the extra session in July last.

3. Issue \$100,000,000 treasury-notes at two years, in sums of five dollars and upwards, to be receivable for public dues to the government, except duties on imports.

4. A suspension of the sub-treasury Act, so as to allow the banks to become depositaries of the government of all loans, and to check on the banks from time to time, as the government may want money.

5. Issue six-per-cent twenty-year bonds, to be negotiated by the secretary of the treasury, and without any limitation as to the price he may obtain for them in the market.

6. The secretary of the treasury to be empowered to make temporary loans to the extent of any portion of the funded stock authorized by Congress, with power to hypothecate such stock, and, if such loans are not paid at maturity, to sell the stock hypothecated for the best price that can be obtained.

The only feature of this plan which received the favorable regard of the Senate and House committees and Mr. Chase, was the first, relating to taxation. The meeting adjourned without maturing any plan for raising money to support the government.

Subsequently the bank delegates and other persons consulted with Mr. Chase,¹ and the result was an approval of the secretary's plan for raising money, and launching the national bank system. The following plan was then matured and adopted :

1. The banks will receive and pay out the United-States

¹ January 15.

notes (authorized by Act of July last) freely, and sustain in all proper ways the credit of the government.

2. The secretary of the treasury will, within the next two weeks, in addition to the current daily payments of \$1,500,000 in United-States notes, pay the further sum of at least \$20,000,000 in seven-thirty bonds to such public creditors as desire to receive them, and thus relieve the existing pressure upon the community.

3. The issue of United-States demand-notes not to be increased beyond the \$50,000,000 authorized by the Act of last July, but it is desired that Congress should extend the provisions of the existing loan Acts passed at the extra session in July, so as to enable the secretary to issue in exchange for United-States demand-notes, or in payment to creditors, notes payable in one year, bearing 3.65 per cent interest, and convertible into seven-thirty three-years' bonds, or to borrow under the existing provisions to the amount of \$250,000,000 or \$300,000,000.

4. It is thought desirable that Congress should enact the national currency bank-bill, embracing the general provisions recommended by the secretary in his annual report.

5. It is expected that this action and liquidation will render the making of the United-States demand-notes a legal tender, or their increase beyond the \$50,000,000 authorized in July last, unnecessary.

With respect to the first plan, Mr. Spaulding says that "the press spoke out plainly against the secretary being authorized to put United-States bonds on the market without any limitation as to the price he might obtain for them." The plan adopted by the secretary contained no such recommendation. As the plan recommended by the banks

at the first meeting containing this feature was not adopted, no one ought to have been disturbed by anything it contained.

The committees of the Senate and House withheld assent, and the majority of the Committee of Ways and Means adhered to the legal-tender bill "as being a more available plan, and on a much larger scale. They believed it was necessary to authorize immediately an additional issue of \$100,000,000 of United-States fundable-notes to circulate as money and be made a legal tender; and that \$500,000,000 six-per-cent twenty-years' bonds should be authorized, so as to enable the holders of the notes, when issued, to fund them at any time in these bonds."

Accordingly, an additional section was framed and adopted by the Committee of Ways and Means "to enable the secretary of the treasury to fund the treasury-notes and floating debt of the United States," authorizing him "to issue, on the credit of the United States, coupon bonds, or registered bonds, to an amount not exceeding \$500,000,000, in sums of \$100, \$200, \$500, \$1000, \$5000, \$10,000, and \$20,000, and in such proportions of each as the exigencies of the public service may require, bearing interest at the rate of six per cent per annum, redeemable, after twenty years, at the pleasure of the United States, which bonds the secretary of the treasury is hereby authorized to deliver at their par value to any creditor or creditors having demands due against the United States in payment thereof, and to deliver the same to officers, employers, and individuals, in payment for services rendered, for supplies, subsistence and materials furnished to the United States; and he may also exchange such bonds at any time for lawful money of the United States, or for any of the treasury-notes

that have been, or may hereafter be, issued under any former Act of Congress, or that may be issued under the provisions of this Act." At the same time the title of the bill was thus amended: "An Act to authorize the issue of United-States notes, and for the redemption or funding thereof, and for funding the floating debt of the United States."

A conference was held with Mr. Chase over the bill, and several amendments were suggested which related to limiting the place for exchanging notes for bonds to the treasury at Washington, and preventions against counterfeiting. The bill was left with him for examination, and when returned to the committee it was accompanied with a letter, in which, after describing several minor modifications, he closes with "regretting exceedingly that it is found necessary to resort to the measure of making fundable-notes of the United States a legal tender, but heartily desires to co-operate with the committee in all measures to meet existing necessities in the mode most useful and least hurtful to general interest."

The bill was again reported in January, as a substitute for the bill previously introduced providing simply for the issue of \$100,000,000 legal-tender notes, and made the special order for consideration on the 28th of the same month. "Each day's delay made it more and more apparent that the bill must pass in order to meet the overwhelming demands made upon the treasury to sustain the army and navy. The end seemed to justify the means contemplated by the bill."

In opening the debate,¹ Mr. Spaulding stated that there was at that time over \$100,000,000 of accrued indebtedness in different forms which ought to be soon paid. "With this large accrued indebtedness, and with the prospect that (unless

¹ January 28.

this bill is adopted) the government will put on the market, to the highest bidder, a still further issue of bonds, to the amount of \$250,000,000 to \$300,000,000, to pay current expenses to July next, it is not expected that even the present price of United-States stocks can be maintained if forced on the market at this time. We have the alternative, either to go into the market and sell our bonds for what they will command, or to pass this bill, or find some better mode—if one can be devised—to raise means to carry on the war. The secretary has the means of defraying the daily expenses required to be disbursed from the treasury for only a few days longer. He has on hand about one-fifth of the loan made in November last, a small portion of the demand treasury-notes authorized by the Act of July, say, \$10,000,000 not yet issued, and such of the remaining 7.3-10 and 3.65 treasury-notes authorized by that Act as can be used in paying contractors for supplies, and for salaries and other government dues, to such persons as are willing to receive them. With the enormous expenditures of the government, to pay the extraordinary expenses of the war, it requires no extended calculation to show that the treasury must be supplied from some source, or the government must stop payment in a very few days."

He then described the difficulty in borrowing money. "You cannot borrow of capitalists any more money on twenty-years' seven-per-cent bonds, nor on your 7.3-10 treasury-notes at the rates fixed by the Act of July last. If you offer to the people, and put on the market, \$300,000,000 more, to the highest bidder, in the present aspect of affairs, they would not be taken, except at ruinous rates of discount. That policy would depreciate the bonds already taken by the banks and the people who are the most loyal to the government,

and who came forward as your best friends and furnished the means so much needed during the last few months to organize your army and navy; and, besides, depreciation would greatly increase the debt by requiring a much larger amount of bonds to be issued than would be needed if your loans were taken at par. A loan put upon the market in the present depressed state of United-States stocks, to be followed by other large loans, is not regarded as a favorable mode of providing the means for maintaining the government at the present time. If it had been adopted at first it might possibly have been the best mode; but it is now too late to essay that plan, and I believe it would be ruinous to adopt it. I fear the twenty-years' six-per-cent bonds would, under the pressure, fall to seventy-five, seventy, sixty, and even fifty cents. This would be a ruinous mode of raising the means to carry on the government."

What, then, was to be done? The secretary of the treasury had suggested two modes—the issue of demand treasury-notes, and a national bank currency secured by a pledge of government stocks. His recommendations were made before the suspension of specie payments, an event which the secretary had not expected. The plan for launching a new banking system could not be hastily matured and put into operation, and after that was done a considerable time would elapse before government would be much benefited by it. The same thing was true in respect to the measure for increasing the revenues of the government. "The duties received at the different custom-houses, and the taxes levied at the extra session or that may now be levied," said Mr. Spaulding, "will be wholly inadequate to meet the requirements of the treasury in the present emergency during the next six months."

“If you cannot borrow the money on the credit of the United States, except at ruinous rates of discount, and cannot realize the amount required from your tariff and tax-bills, in what mode can the means be obtained, and the government be carried on? It is believed that the only way in which it can be done is by issuing treasury-notes payable on demand, and making them a legal tender in payment of all debts, public and private, and by adequate taxation to be enforced by new bills.”

The debate flamed highest around the question of the constitutionality of the bill. This question was discussed in the opening speech, and by nearly all who participated in the discussion. The most elaborate speech against its constitutionality was delivered by Mr. Pendleton, of Ohio, exhibiting great learning and a thorough mastery of the subject. The secretary's letter, which we have given, was regarded by a majority of the Committee of Ways and Means, and by many others, as colorless on this point, and not a few believed that if he were pressed to declare his opinion it would be against the constitutionality of the bill. In order to obtain his opinion more fully, Mr. Corning offered a resolution when the measure was in the possession of the Committee of Ways and Means, referring it to the secretary, and requesting him to communicate to the committee at as early a day as possible his opinion of the propriety and necessity of immediately passing the bill. The resolution having been adopted, and the bill sent, the secretary, after considerable delay, replied that “the condition of the treasury certainly needs immediate action on the subject of affording provision for the expenditure of the government both expedient and necessary. The general provisions of the bill submitted to me seem to be

well adapted to the end proposed. There are, however, some points which may, perhaps, be usefully amended.

“The provision making United-States notes a legal tender has doubtless been well considered by the committee, and their conclusion needs no support from any observation of mine. I think it my duty, however, to say, that in respect to this provision my reflections have conducted me to the same conclusions they have reached. It is not unknown to them that I have felt, nor do I wish to conceal that I now feel, a great aversion to making anything but coin a legal tender in payment of debts. It has been my anxious wish to avoid the necessity of such legislation. It is, however, at present, impossible, in consequence of the large expenditures entailed by the war, and the suspension of the banks, to procure sufficient coin for disbursements ; and it has, therefore, become indispensably necessary that we should resort to the issue of United-States notes. The making them a legal tender might, however, still be avoided if the willingness manifested by the people generally, by railroad companies, and by many of the banking institutions, to receive and pay them as money in all transactions, were absolutely or practically universal ; but, unfortunately, there are some persons and some institutions which refuse to receive and pay them, and whose action tends not merely to the unnecessary depreciation of the notes, but to establish discrimination in business against those who, in this matter, give a cordial support to the government, and in favor of those who do not. Such discriminations should, if possible, be prevented ; and the provision making the notes a legal tender, in a great measure at least, prevents it, by putting all citizens, in this respect, on the same level, both of rights and duties.”

The debate continued and the treasury was getting low. Early in February the secretary wrote to Mr. Spaulding, "Immediate action is of great importance. The treasury is nearly empty. I have been obliged to draw for the last installment of the November loan ; so soon as it is paid, I fear the banks generally will refuse to receive the United-States notes. You will see the necessity of urging the bill through without more delay."

In this letter he also reiterated his opinions concerning the constitutionality of the bill. "It is true that I came with reluctance to the conclusion that the legal-tender clause is a necessity, but I came to it decidedly, and I support it earnestly. I do not hesitate when I have made up my mind, however much regret I may feel over the necessity of the conclusion to which I came." Such are the utterances of Mr. Chase with respect to the constitutionality of the bill when under discussion by Congress.

On the 4th of February, by consent of the House, Mr. Morrill offered a substitute, which had the sanction of one-half the Committee of Ways and Means, Mr. Stratton, one of the members, having changed his mind, and forced the substitute instead of the bill first reported.

Mr. Morrill remarked when explaining the bill that he did not object to the issue of United-States notes to a limited extent to circulate as currency. But he did wish to have the amount marked by metes and bounds, and based on a solid foundation, and be the full equivalent of standard coin. This could be done by fixing the amount and by providing taxation sufficient to retire them or to maintain their full value. But he protested against making anything a legal tender except gold and silver. He proposed no new issue of

treasury-notes, but to leave the fifty millions already authorized to be issued and re-issued as might be found necessary or convenient. This would secure us against an inflated currency.

“Then,” he continued, “it is proposed to issue \$100,000,000 in United-States notes, bearing interest at the rate of 3.65 per cent, payable at the pleasure of the United States, and allowing them, with accumulated interest, to be received for all debts and demands (taxes included) due to the United States, except duties on imports, and exchangeable at the will of the holder, whenever presented in sums not less than fifty dollars, for United-States seven-and-three-tenths per-cent coupon or registered stock. They are also to be received at par, with accumulated interest, for any bonds the government may hereafter issue. These are to be paid out for all salaries, debts, and demands due to individuals and corporations, at their option, within the United States. In substance this is very like English exchequer-notes issued in anticipation of revenue. It is most probable that these notes would maintain their credit at or near par; and if there should be any difference between these and gold, it would be an honest difference visible to all men. As they accumulate they will be funded and returned, or re-issued, as the exigencies of the government may require. They equip the treasury as well as any legal-tender paper could do, while bearing interest they would not pass into the general volume of the currency, and they afford the only possible channel of obtaining any considerable sums to be consolidated into stock. They cannot exceed the amount of internal duties that will be levied, which will create a sure and constant demand for these notes, and sustain their credit in every State and territory in the country.”

The notes were not to be received for imports. For this purpose only coin could be used, which was to be paid as interest on the bonds issued by the government.¹ It was also proposed to issue \$200,000,000 in bonds, payable in ten years with interest semi-annually in coin, at the rate of 7.3 per cent, and \$300,000,000 of bonds payable in twenty-five years, bearing six per cent interest payable in like manner. This was the rival plan before Congress, and it certainly evinced quite as wide and deep knowledge of the situation as the other.

The treasury was getting lower every day. Money or other available means must be obtained immediately. The secretary could no longer delay payment without ruining the credit of the government. The secretary had authority under the loan Act of July, 1861, to issue \$46,000,000 of treasury-notes, bearing 3.65 per cent interest, or to issue seven-thirty notes, but he could not issue either kind at par. The seven-thirty notes would not be accepted at a discount less than two per cent, and the 3.65 notes at a greater one. The rate of interest was too low to attract investors; and as the notes were not a legal tender they could not be employed as money. The needs of the treasury were so pressing that the 6th of February was fixed as the day for closing the debate in the House and taking the final vote on the bill. Its passage was assured, for the opinions of the members had been ascertained. Thaddeus Stevens, chairman of the Committee of Ways and Means, closed the debate, reaffirming what was said in the beginning, that the bill was "a measure of necessity, not of choice." He also remarked that the banks had continued to pay the loan which they had agreed to take, but since the suspension of specie payments they had paid not in coin but in demand-

¹ See page 155.

notes of the government, which had kept them at par. The last of this loan had been paid the day before, and as soon as that transaction was finished they refused to receive any more treasury-notes. "They must," he said, "now sink to a depreciated currency." The remaining \$50,000,000 of the July loan the secretary had been unable to negotiate, except a small portion of it, about \$10,000,000, which had been issued at 7.3 per cent in payment of debts. The floating debt then existing, audited and unaudited, was at least \$180,000,000.

He further maintained that "without the legal-tender clause the notes could not be kept at par. Brokers, bankers, and others would depreciate them. The national bank scheme recommended by the secretary might, in ordinary times, be very useful, but while the banks are under suspension it was not easy to see how it would relieve the government. They would have the circulation without interest, and at the same time would draw interest on the bonds and afford no immediate relief." He thought the government should have the benefit of the circulation of legal-tender notes, and did not see how we could get along in any other way. He did not think that any more beside the \$150,000,000 would be needed. No one would seek them for investment. Money circulated so rapidly that it purchased ten times its value in a year. "This money," he said "would soon lodge in large quantities with the capitalists and banks, who must take them. But the instinct of gain would not allow them to keep it long unproductive. Where could they invest it? In United-States loans at six per cent redeemable in gold in twenty years, the best and most valuable and permanent investment that could be desired. The government would thus again possess such notes in exchange for bonds, and again reissue them. I have no doubt

that thus the \$500,000,000 of bonds authorized would be absorbed in less time than would be needed by government; and thus \$150,000,000 would do the work of \$500,000,000 of bonds. When further loans are wanted, you need only authorize the sale of more bonds; the same \$150,000,000 of notes will be ready to take them."¹

Mr. Stevens was wholly correct in maintaining that those who took these notes would not keep them "long unproductive." His second proposition was equally true that if bonds were issued by the government investors could replace their treasury-notes with them. But would they? He was very sanguine; the future turned hope into a disappointing reality. He discussed the various plans that had been proposed, and concluded by saying that unless the bill passed with the legal-tender clause, it was not desired, either by its friends or by the administration, that it should pass at all, and those who voted with him would vote against it if it were mutilated or emasculated.²

Two amendments were made before the final vote was taken, which are of sufficient importance to be stated. One

¹ He said that the highest sum for which the bonds could be sold "would be seventy-five per cent, payable in currency itself at a discount. That would produce a loss which no nation or individual doing a large business could stand a year." He did not believe that any one would convert notes into bonds.

² In this speech Mr. Stevens remarked that certain bankers had "suggested that the immediate wants of the government might be supplied by pledging 7.3 per cent bonds, with a liberal margin, payable in one year, to the banks, who would advance a portion in gold and the rest in currency. The effect would be that government would pay out to its creditors the depreciated notes of non-specie-paying banks, and as there is no probability that the pledges would be redeemed when due, they would be thrown into the market and sold for whatever the banks might choose to pay for them."

of these increased the amount of notes to \$150,000,000, but the \$50,000,000 authorized by the July Act of the previous year were to be retired, making this the maximum limit; the other gave holders the option to convert them either into a twenty-years' bond, at six per cent, or a five-years' bond, at seven per cent. There were other amendments, which need not be described. The bill passed by a vote of ninety-three to fifty-nine.

The treasury was nearly empty, and the secretary was unable to negotiate another loan under the July law of 1861, at the rates therein prescribed. The six-per-cent twenty-year bonds were then selling at about eighty-eight, and the 7.3 notes were below par. In this emergency Secretary Chase urged the immediate passage of a bill giving temporary relief. The Senate Finance Committee sent a bill to the Legislature, providing for the issue of \$10,000,000 of treasury-notes payable on demand, which were to be deemed a part of the \$250,000,000 loan authorized at the extra session in July, 1861. The bill was immediately passed by that body, and three days afterward by the House.¹

On the 10th of February the legal-tender bill was reported by the Finance Committee of the Senate, with numerous amendments, the most important of which were:

6. That the legal-tender notes should be receivable for all claims and demands against the United States of every kind whatsoever, "except for interest on bonds and notes, which shall be paid in coin."

9. That the bonds authorized by the bill should be "redeemable in five years, and payable in twenty years from the date thereof."

¹ Act, Feb. 12, 37 Cong., second session, chap. 20.

15. That the secretary might dispose of United-States bonds, "at the market value thereof, for coin or treasury-notes."

18. A new section, authorizing deposits in the sub-treasuries at five per cent, for not less than thirty days (and which could be withdrawn after ten days' notice), to the amount of \$25,000,000, for which certificates of deposit might be issued.

19. An additional section "that all duties on imported goods, and proceeds of the sale of public lands," etc., should be set apart to pay coin interest on the debt of the United States, and one per cent for a sinking fund.

Senator Fessenden, the chairman of the Finance Committee, explained the amendments. With respect to the sixth, he remarked that under the provisions of the House-bill, a creditor of the government, holding its paper, notes or bonds, would be compelled to take his interest in notes, or bonds, as the case might be, when the time for paying interest arrived. The Senate amendment, if passed, required the government to provide coin for the payment of interest. The object of this provision was not only to do justice, but raise and support the public credit. It would prove the good faith of the government that it would spare no effort at whatever cost to give those who took government paper something besides that for interest.

The committee, so he explained, had provided a specific fund in order to accomplish that end. At first it was proposed to raise this by requiring the duties on imports to be paid in coin, but such a requirement of the importers was deemed by the committee hardly fair. "The result would be to make a distinction between different classes of the com-

munity, and to impose a very heavy burden upon those who are engaged in trade, and who would be called upon to pay duties. If we provide a paper currency, the natural and inevitable effect of it is that coin increases in price. The consequence would be, unquestionably, that those obliged to pay import duties might be compelled to make a severe sacrifice in order to raise the coin to pay the duties; and, in the next place, the general effect would be to, in effect, increase the duties provided by our tariff. Necessarily, if coin appreciates, if it becomes worth more than the ordinary currency, and duties are to be paid in coin, the effect of such a provision would be to increase the duties, which are already very high, and in some cases almost prohibitory. The committee, therefore, thought that, under the circumstances, that would not be wise; although, it will be perceived that, not having done so, the converse of the proposition may be true: that the effect, if we inflate the currency by paper, and allow the duties to be paid in paper, is necessarily to diminish the imports, and thus, perhaps, to lead to a greater importation." Having rejected this mode of getting coin the committee resorted to the modes set forth in the amendments above stated.

Nevertheless, importers were required to continue the payment of duties in coin, just as they had previously done. Many objections were afterward raised to this employment of specie, especially by those who wished to banish it wholly from the monetary world. Yet even James II., though so greatly in need of money when in Ireland that he collected brass and copper of the basest kind, and coined those metals into pieces having a nominal value of five pounds, forbade their employment in paying the duties on foreign importa-

tions, or in repaying money left in trust or due on mortgages, bills, and bonds.

Another amendment related to the issuing of certificates of deposit. "This provision," said Mr. Fessenden, "was very much desired by the banks in all the cities. It was thought that it would afford them facilities that would give greater currency to the notes, that it would enable them to deal with them better." The amendment encountered the opposition of Senator Sherman, who contended that it would retard the conversion of treasury-notes into bonds, and also convert the sub-treasuries into banks of deposit. A person, he said, might deposit one thousand dollars in the treasury at New York, and get a certificate therefor which he could send to San Francisco. In due time it would come back, but during the interval the depositor would get five per cent from the government "while the whole arrangement was merely for the convenience of the depositor and no one else." This reason for opposing the amendment is a striking illustration of the varying effect produced on different minds by the same cause. One object in passing the amendment was to convert the sub-treasuries into places of deposit. And why? This question was answered by the chairman of the Senate Finance Committee, Mr. Fessenden. He said that the banks lived on deposits; those in the great cities especially did not have a large circulation. "We want to induce them to take the [government] notes on deposit; and if we provide a place where, if they do not take them on deposit, they can be deposited by individuals, it is a strong pressure brought to bear upon the banks to give the notes a currency by taking them and passing them themselves." Another reason for the amendment originated with the bank-

ers. They said the notes would necessarily accumulate at the banks, and temporarily be unemployed. If, during such a period, interest could be obtained by depositing them with the government, this would be a strong reason for taking them. For this reason the amendment was particularly desired by the banks in Philadelphia.¹ Many members in both houses did not regard the amendment with favor, fearing either the effects above stated, or other injurious ones which could not be foreseen. That the conversion of notes into bonds might not be checked, a higher rate of interest was to be paid on them than on deposits.

Having explained the amendments of the committee, he proceeded to discuss the bill. After admitting that if it were necessary to issue legal-tender notes to sustain the government he should have no hesitation in doing so, he questioned whether the government had arrived at that stage, and whether something better could not be done than to pass this measure. He then stated his objections to the bill in a very brief, pointed way, which are worth reproducing here.

"The first," he said, "is a negative objection. A measure of this kind certainly cannot increase confidence in the ability or the integrity of the country. It can make us no better than we are to-day, so far as this foundation of all public credit is concerned.

"Next, in my judgment, it is a confession of bankruptcy. We begin and go out to the country with the declaration that we are unable to pay or borrow at the present time, and such a confession is not calculated to increase our credit.

"Again, say what you will, nobody can deny that it is bad faith. If it be necessary for the salvation of the government,

¹ See Cong. Globe, Feb. 12, 1862.

all considerations of this kind must yield ; but, to make the best of it, it is bad faith, and encourages bad morality, both in public and in private. Going to the extent that it does, to say that notes thus issued shall be receivable in payment of all private obligations, however contracted, is, in its very essence, a wrong, for it compels one man to take from his neighbor, in payment of a debt, that which he would not otherwise receive or be obliged to receive, and what is probably not full payment.

“ Again, it encourages bad morals, because, if the currency falls, as it is supposed it must, else why defend it by a legal enactment, what is the result? It is, that every man who desires to pay off his debts at a discount, no matter what the circumstances are, is able to avail himself of it against the will of his neighbor, who honestly contracted to receive something better.”

The other reasons advanced by him were, that the measure would inflict a stain on the national honor, that it would change the values of property and cause inflation, and that the loss resulting therefrom would fall most heavily on the poor. He urged taxation, good faith and economy as the best means of maintaining the credit of the government. The bill was ably debated in the Senate, and finally passed that body by a vote of thirty to seven.

The bill having been amended in the Senate, further action thereon was needful by the House. The five amendments previously mentioned were the most objectionable to the members, and we will briefly show what the House did with them.

All laws authorizing loans from the organization of the government had provided for the payment of “dollars.”

This word had a well-known meaning under our coinage and legal-tender laws, and many members were opposed to any discrimination in favor of the bondholders. The House, however, concurred in the Senate amendment to pay the interest on bonds and notes in coin, and also in the fifteenth amendment authorizing the secretary of the treasury to sell bonds at their market value. The House, after amending the eighteenth amendment, concurred in it, but did not concur with the Senate in the ninth and nineteenth amendments. The House, on the recommendation of a committee of conference, receded from their action on these also, save a slight change in the amendment relating to the creation of a sinking fund. Thus the principal Senate amendments were adopted by the House. The bill, as finally amended, passed the House by ninety-seven votes against twenty-two. In the Senate there was no division of the vote. The President approved the bill, and thus it became a law.¹ No financial measure of modern times has produced such far-reaching consequences, and it was therefore fitting to give this minute history of its origin and growth. The debates in Congress and discussion elsewhere showed that the probable effects were well understood, for the issuing of paper money by governments is an old device, the awful operation of which has been recorded in luminous language. The measure had not the slightest tinge of originality. Spain, Russia, France, and other countries had indulged in similar financial experiments, and their results are among the most familiar facts of history. When St. Simon told the Duke of Orleans that the finances of the greatest king in Europe ought not to be managed like those of a private person, the regent solicited

¹ Act, February 25, 37 Cong., second session, chap. 33.

the financial genius of John Law, and the nation found the philosopher's stone in a paper mill. Many thought like the regent when *fiat* money was first manufactured by the American government. It is true that others favored this measure, honestly believing that by no other could a monetary supply be obtained. A much larger number rejoiced over the adoption of the measure, because they believed in the efficacy of *fiat* money. They were the enemies of banks and bank-notes, and believed that government should issue the entire paper money, and knew no reason why this valuable and highly profitable privilege should be granted to individuals without reward. This class have always existed since the founding of the government, and exist to-day. Doubtless many of them were not wise, many were dishonest, and saw, if the measure were adopted, an easy way to pay their debts; nevertheless, the dishonest, ignorant, and equally selfish men who differ from the believers in *fiat* money are not scarce.

The measure rested mainly on the foundation of an "absolute overwhelming necessity." If this did really exist, who could take exception to the ringing words of Senator Fessenden, when he said, "I would advocate the use of the strong arm of the government to any extent in order to accomplish the purpose in which we are engaged. I would take the money of any citizen against his will to sustain the government, if nothing else was left, and bid him wait until the government could pay him. It is a contribution which every man is bound to make under the circumstances." Mr. Fessenden did not believe the time had come for resorting to such an expedient to get money for the government. He showed that the country was rich, and though our credit had been somewhat injured by the conduct of the war, it was not

gone. The national credit was low when the administration came into power, and Secretary Chase in a few months had committed serious blunders, which were disheartening ; if, instead of inventing paper wings for money as soon as the banks had suspended specie payments, the President had selected Mr. Fessenden, or another man equally competent, to manage the treasury department, the banks would have co-operated with him, and new loans would have been negotiated. But it was hopeless to attempt to work with Mr. Chase. It is true that the issue of legal-tender notes might have been necessary at some period of the war,¹ but the fires of patriotism, which were now everywhere burning brightly, were not mere cornstalk illuminations. Men were ready to assist not only in sending soldiers, but in lending their money just as soon as the secretary showed efficiency in borrowing and in spending it.

¹ Senator Sherman said, in a Senate speech, Feb. 27, 1866, "I still think that, with the closest economy and heavy taxes from the beginning, we might have borrowed money enough on a specie basis to have avoided a suspension of specie payments." In an excellent essay on the legal-tender Act, by F. A. Walker and Henry Adams, they remark : "The common impression undoubtedly is, that even though there were no actual necessity for a law of legal tender so early as February, 1862, yet at some subsequent time the enactment of such a law would have proved inevitable. . . . Without venturing at present on any absolute denial of the theory, . . . it is only fair to say that, although the subject is scarcely capable at present of positive demonstration, there is absolutely no evidence to prove that the government might not have carried the war to a successful conclusion without the issue of a single dollar of its legal-tender paper."—*N. Am. Review*, April, 1870. Secretary Fessenden said, in the Ann. Treas. Report, 1864: "Resort to some other species of currency of a national character became unavoidable, as was unanswerably demonstrated by my predecessor in his report of December, 1862. Fraught with danger as government paper has almost invariably proved, there was, under the circumstances, no other resource."

It must be remembered, too, how much the cry of "absolute necessity" had been intensified since the first introduction of the bill. By fastening sharply on that expedient, and neglecting every other, a great many had come to believe that really an "absolute necessity" did exist for issuing a forced paper money.

Nevertheless, beside the members of Congress who believed the measure to be necessary were many others whose opinions were worth much. The government could no longer pay gold and silver, and the demand treasury-notes, authorized in July, did not circulate freely. Individuals, railroad companies, and banks refused to receive them. After the suspension of specie payments, the banks paid the remainder of their loan to the government in treasury-notes, and after completing this engagement, declined to recognize them. Consequently, they were worth less than bank-notes. Yet the opinion widely prevailed that the government ought not to depend on irredeemable bank-notes for money.¹ It was feared that with

¹ Secretary Chase said, in his annual report, Dec. 1862: "There remained but one other possible way of raising money by the negotiation of bonds in the usual mode. That way was, to receive in payment of loans the notes or credits of the banks in suspension. . . . The negotiation of such loans to the extent required by the public exigencies would create a demand for the notes which would involve the necessity, at first, of sacrifices not greatly inferior to those attendant on coin loans. If subsequent negotiations should become practicable at seemingly better rates, it would be because the government demand had stimulated the making and issuing of bank-notes to an extent far beyond the ordinary needs of business. The increase of circulation thus stimulated would be unlimited, except by the possibility of obtaining interest on loans of it; or, in other words, by the possibility of obtaining credit for it with the community and the government. . . . Loans negotiated in this circulation would be simply exchanges of the debts of the nation, bearing interest and certain to be paid, for the

no restraint whatever on their issues the banks would enormously inflate their circulation. After the suspension of specie payments in 1812 the banks, released from the demands of billholders for gold and silver, issued notes in enormous quantities. Would not the banks, if the opportunity occurred, be strongly allured by the hope of gain to repeat their former action? Moreover, the government had no right to receive them. The sub-treasury law was in operation, and the government could legally receive only gold and silver and treasury-notes. As resources of some kind were needful in order to live, and specie could not be employed, the government must either depend on the circulation of the banks or issue one of its own. And if the issuing of government-notes was the best plan and the most generally favored, should they be endowed with the legal-tender quality or be issued without it? On that question public opinion strongly favored the issue of legal-tender notes. Said Senator Sherman, in a speech on this subject: "Almost every recognized organ of financial opinion in this country agrees that there is such a necessity in case we authorize the issue of demand-notes." The secretary of the treasury had declared, in his official communications to the Senate and in private conversation with members of the Finance Committee of that body, that the notes must be made a legal tender to insure their negotiability. The same view was entertained by the chambers of commerce of Boston, New York, and Philadelphia. The cashier of the Bank of Commerce of New York, speaking of debts of a multitude of corporations, bearing no interest and certain, in part, never to be paid." James Gallatin showed how an excess of bank circulation might be prevented by "taxation more or less prohibitory."—See *National Finances and the Currency*, 1862, p. 8.

for that bank and other banks of New York, "stated explicitly" to the Finance Committee of the Senate that they "could not further aid the government unless the proposed currency was stamped by and invested with the legal form and authority of lawful money, which they could pay to others as well as receive themselves." "If you strike out this legal-tender clause," said Senator Sherman, in blazing language, "you do it with the knowledge that these notes will fall dead upon the money market of the world; that they will be refused by the banks; that they will be a disgraced currency, that will not pass from hand to hand; that they will have no legal sanction; that any man may decline to receive them, and thus discredit the obligations of the government." Legal-tender notes, therefore, were the best substitute for gold and silver in making payments to the government that could be devised, and far more acceptable to the people than irredeemable bank-notes.

In these reasons was rooted the necessity for issuing legal-tender notes. Whether they were as strong as they appeared to be we shall not attempt to decide.¹ The opinions of men equally intelligent, candid, and patriotic, were divided concerning the necessity of issuing legal tenders in 1862, and probably always will be. The entire course of history is strewn with unsettled questions; nor is this to be regretted; for it consequently possesses a deeper interest and more keenly stimulates the investigating and judicial spirit of man.

The people were quickly reconciled to the measure. Many had heartily favored it from the beginning. This was true of the debtor and speculative classes; the latter class especially, with their keen instincts for making money, knew that,

¹See Spear's Legal-Tender Acts, chap. 12, p. 88, The Plea of Necessity.

with the general derangement of prices which was sure to follow an inflation of the circulating medium, a golden opportunity would appear for them to exercise their peculiar powers. They flourish when the storm rages hardest ; in calm waters they are like a ship whose sails are uselessly suspended in the air. Nothing could please them better than a deluge of cheap money. Moreover, the tune of " absolute necessity " had been played so much that all the people had learned it well, and they loyally bowed to this expression of legislative wisdom, having faith that however destructive the impending monetary revolution might prove to be, the cause of the Union would finally triumph.

CHAPTER V.

MORE LEGAL-TENDER NOTES.

WHENEVER a paper money spring has been found, the discoverers have not been perfectly happy until the stream issuing from it has swelled to a mighty flood. When the bill authorizing the first issue of legal-tender notes was before Congress, several members prophesied a heavy increase, while others were equally confident that no more would be needed or put into circulation. Said Mr. Hooper, of Massachusetts, who had carefully studied monetary questions for many years, "It is said that when a government once assumes the power to issue a currency, the temptation to continue issuing it rather than to resort to the more unpopular method of taxation is so great, that it will not cease to issue it until it finds itself in a state of utter bankruptcy. The answer to this objection is, that the power of the government is limited by the law in this respect to \$150,000,000, and consequently the government can not, if it would, yield to any such temptation." What a lofty conception had Mr. Hooper of the virtue of the government! It could not yield to the temptation to issue more paper money. Not so thought Mr. Morrill of Vermont. "If the first step were taken," he said, "in making paper a legal tender, we must go on. No sane man would spontaneously take stock liable by the practices of the government to be reduced the very next day ten per cent, or any other per cent, in its value. So that if Congress should have the virtue to

wish to cease the further issue of these notes, it would no longer be an open question. But, having tested this facile mode of paying debts, I fear the stern and honest mode of taxation would be repugnant to many constituencies, and that the doors of the temple of paper money would not soon again be closed. Gentlemen may think otherwise, but, like a certain heroine who

‘Said she’d ne’er consent, and consented still,’

Congress would consent. If we have not the virtue and the power to resist the temptation now, while our reputation is spotless, we shall have still less when the whole country becomes debauched.”

The country did not wait long to find out who was the true presager. Having tested the sweets of paper money, within a month after the enactment of the first legal-tender law, Secretary Chase requested that the demand-notes authorized at the session in July, 1861, and the ten millions on the following February, be declared a legal tender. His object in having them made a legal tender was to give them currency at the clearing-houses, and in all business transactions. When the Senate were discussing the bill, Senator Collamer inquired whether, if it were passed, the amount of legal-tender notes would not be increased to \$160,000,000. Senator Fessenden replied that the entire amount was limited to \$150,000,000, and the issue of new notes would not exceed \$90,000,000, except to replace the \$60,000,000 in circulation. These, therefore, were endorsed with the legal-tender quality, and thereafter circulated as freely as the notes authorized by the February law.

Hardly had three months passed before the secretary of the

treasury sent a communication to the Committee of Ways and Means, accompanied with a bill providing for the issue of an additional \$150,000,000 of legal tenders. This was on the 7th of June. He stated that the daily receipts from customs were about \$280,000, and that the average daily conversion of legal-tender notes into bonds did not exceed \$150,000, while the daily expenditures exceeded \$1,000,000. He further remarked that if Congress saw fit to authorize the amount proposed, it seemed highly expedient that such a portion as the public convenience should require be issued in denominations less than five dollars. Admitting the force of the objections generally advanced against issuing notes of a smaller denomination, he maintained that under the existing circumstances of the country they did not apply. The burdens of the people, he maintained, should be made as tolerable as possible. If the restriction on the issue of small denominations was removed, the wants of the country would absorb a circulation of \$25,000,000, and perhaps more. The interest on this circulation, say \$1,500,000, would be saved to the tax-payers. "Payments to public creditors, and especially to soldiers, now require large amounts of coin to satisfy fractional demands less than five dollars. Great inconveniences in payment of the troops are thus occasioned. With every effort on the part of the treasury to provide the necessary amount of coin, it is found impracticable always to satisfy the demand. When the amount required is furnished, the temptations to disbursing officers to exchange it for any small bank-notes that the soldiers or the public creditors will take, is too great always to be resisted. And even when the coin reaches the creditors it is seldom held, but passes, in general, immediately into the hands of the sutlers and others,

and disappears at once from circulation. The inconvenience, therefore, to the government and creditors from the absence of United-States notes of small denominations, are not compensated by benefits to anybody." Another reason advanced by him was that resumption of payments in specie could be effected more surely and easily, and with less inconvenience and loss to the community, if the currency, both small and large, were composed of United-States notes, than if the channels of circulation were filled with the emissions of non-specie paying corporations.

Slow as many persons were in perceiving the advantages of a purely paper currency, Secretary Chase could not be reckoned among the number. Possibly he was like an epicure who prefers a piece of dry bread to fasting; judging from his conduct, however, he had been overcome by the paper money enchantment. The sage remark in his July report concerning the mode of issuing treasury-notes—that the greatest care would be requisite to prevent their degradation into an irredeemable paper currency, than which no more certainly fatal expedient for impoverishing the masses and discrediting the government of any country can well be devised—had certainly been forgotten.

One member of Congress, Mr. Spaulding, did clearly intimate when the first legal-tender bill was discussed by the House that a further issue of legal-tender notes might be necessary; but "all others who discussed the subject utterly denied and repudiated the idea that they were ever to [favor the issue of] another similar batch. . . . When that bill was on its passage, the chairman of the Ways and Means Committee gave the House and the country a grave assurance, which was unquestionably sincere, that no further increase of such

notes would be required or solicited. The assurance gave much satisfaction to many gentlemen of prudence and sagacity and gained for the measure large support." Yet, how suddenly did many members change their opinions. Not all of them changed, however, for some who favored the first issue were strongly opposed to the second. Doubtless Mr. Pike, of Maine, expressed the opinions of other members when he said that he voted for the first measure on the ground of necessity, but opposed the second because it rested on convenience.

The bill authorized the issue of \$150,000,000 of notes, reserving one-half of the amount to secure the prompt payment of deposits which were in the treasury. This amount could be issued and used "when in the judgment of the secretary of the treasury the same, or any part thereof, may be needed for that purpose." Many hoped and believed that only \$75,000,000 of notes would be put in circulation.

The \$50,000,000 of demand-notes authorized in July could be used in payment for duties, and also the \$10,000,000 issued on the following February; but the \$150,000,000 of legal-tender notes could not thus be employed. Consequently, the first two issues had a special value, and in July, 1862, \$50,000,000 were outstanding. There was another important privilege attached to these issues, or "old demand-notes," as they were called. They could be funded into twenty-year six-per-cent bonds, which were worth par in specie at the time the legal-tender bill we are now describing was under consideration. It was believed, however, that these notes would soon be presented in large quantities, because, as they were receivable for duties, persons would prefer to use them, even if paying a premium therefor, to paying a higher

premium for gold. They had therefore ceased to be a part of the circulating medium ; consequently, of the \$150,000,000 of legal-tender notes that had been authorized only about \$100,000,000 were in circulation at the time the secretary of the treasury favored another issue. Furthermore, as only one-half of the new issue was to be put into circulation, and the other half reserved, as previously explained, the actual increase to the circulation would be \$75,000,000.

The strongest reason advanced for issuing these notes was that the banks were absorbing them and pushing their own into circulation. Mr. Hooper said, during the debate, "It may well be considered whether any restriction of the government issues will not serve to encourage and increase the issues of the banks. I confess that I can see no limit to a depreciation of the currency that may be produced by the banks ; and were it not that I have great faith in the prudence and wisdom and patriotism of those who manage the banks, I should have great apprehension in regard to it, as no obligation is now recognized by them to redeem their circulation, many of the States having legalized the suspension of specie payments."

The opinion that the banks were a sharp competitor of the government in furnishing a monetary circulation, and in absorbing the legal-tender notes, became general. The feeling grew that they ought to be restrained. A member of Congress doubtless expressed the sentiments of many others, when he arraigned the banks in the following manner: "They have authority to buy up our bonds in the market, to take up our circulation and put their circulation in the place of it, and that is what they are doing all the time ; and the question is whether we shall pay these people six per cent upon our bonds

for furnishing no better currency than we can furnish ourselves. In a contest of this kind I am in favor of the government. Now, what do these capitalists do? As soon as a five-dollar treasury-note gets into the market, they grab it up and put one of their own five-dollar notes into circulation in its place, and then convert their treasury-notes into six-per-cent bonds. That is the process which is going on all the time; and in that way the banks keep their own paper in circulation, and keep the paper of the United States out of circulation. In other words, it is a struggle on the part of the banking institutions of the country to bleed the government of the United States to the tune of six per cent on every dollar which it is necessary for the government to use in carrying on this struggle for our independence and our life." Senator Sherman shared the same opinion, though expressing it in a milder form. The legal-tender notes "are actually kept out of circulation by the depreciated bank paper of the country; and every issue you make increases that tendency. Every new issue of treasury-notes is only a bid for new inflation by the banks, and thus the better money of the United States is hoarded and laid away; and the paper money which is issued on the credit of it is thrown on the country, producing inflation and derangement of our monetary system, and, I believe, in the end will produce disaster."

The absorption by the banks of the government circulation was magnified a thousand fold. It furnished a very good reason for issuing more, while it intensified the feeling against the banks. Although they had loaned the government more than half their capital at a time when others would lend nothing, this was speedily forgotten; and the feeling of hostility to them was rapidly intensifying.

No one had a deeper insight into the evil consequences of issuing more legal-tender notes than Senator Chandler of Michigan, or discussed the subject with greater ability. On the 17th of June he introduced a resolution "that the amount of legal-tender treasury-notes already authorized by law shall never be increased." The next day he addressed the Senate on this resolution. He said that he believed \$100,000,000 of treasury-notes were sufficient to furnish a circulation for the country, though he voted for the first legal-tender law. The enactment had "proved highly satisfactory, not only to the secretary of the treasury but to the nation at large." The average bank circulation throughout the United States was not quite thirty days, but the entire bank circulation did not quite average that period. In the agricultural districts it averaged more; in the large moneyed centers much less. The government could expect but very little more circulation for its issues than the banks could for theirs. Thus it would be seen that if the circulation of the \$150,000,000 of legal tenders averaged thirty days that amount would perform the work of \$1,800,000,000 per annum, and no one pretended that we should require one-third of that amount.

"The moment you authorize the issue of \$300,000,000 to be used, to be sure, at the discretion of the secretary, the fear that it may be thrust upon the banks and bankers of the land, creates at once a panic; it creates a surplus of circulation, it creates a fear, a dread, a distrust; and your notes will depreciate. The moment you reduce the value of these notes, even to the point at which they now stand, even to seven per cent discount, you drive out of circulation the coin of the country. The temptation is too strong to be resisted, to use something

else besides coin for change and for small circulation." These deductions, the unquestioned teachings of experience, were not heeded by Congress. The stream of circulation was already full, and a slight addition would surely cause an overflow. Yet Congress, with but little thought, hastily passed the bill which was to produce so much disaster.

The secretary of the treasury was desirous of obtaining authority to issue notes of lower denominations than five dollars, but the Committee of Ways and Means differed from him in this regard. An amendment was offered to the bill reported by the committee, granting authority to issue smaller notes to the amount of \$50,000,000, and this was carried. The bill, like the former one, contained a provision for converting the notes into bonds, and Mr. Colfax maintained that these ought to run absolutely for twenty years instead of reserving to the government the right to redeem them after five years. The bonds redeemable in 1881, having a fixed life of twenty years, were selling at that time in New York at six per cent above par for greenbacks, while the five-twenty bonds would bring no such premium. If they commanded a premium, it was maintained that the legal tenders would be converted into bonds rapidly, and a margin of six per cent between the notes and gold would not exist.

The law provided among other things that any notes issued under it might be paid in coin, "instead of being received in exchange for certificates of deposit at the direction of the secretary of the treasury," and that he might exchange for the notes, on such terms as were most beneficial to the public interest, bonds bearing six per cent interest, and redeemable after five, and payable in twenty years. He was granted

authority to re-issue the notes thus received in exchange, and receive and cancel notes previously issued, and in lieu of them issue an equal amount by the new law ; he could also purchase at rates not exceeding one-eighth of one per centum bonds or certificates of debt.¹ With much labor, therefore, a winding-sheet was put around the nation for the purpose of convincing the people that national life was extinct. Was ever in financial history a more mournful scene than that now beheld at Washington, where Congress was trying to destroy the national credit in order to furnish an excuse for issuing paper money, honestly believing that by this bold and extraordinary jugglery the Union might be saved.

Shortly after enacting this law the use of postage stamps was legalized in making payments to the government not exceeding ten dollars,² in consequence of the sudden and general scarcity of small change. After the suspension of specie payments the minor silver currency quickly disappeared. The people were not prepared for its sudden flight, and for several months were without an effective substitute. In the interval those having many small payments to make, especially persons engaged in retail trade, railroad companies, and the like, suffered much inconvenience. Corporations, individuals, and firms began to issue "shinplasters," as they were called, to supply the deficiency, and in many cases made them exchangeable for commodities and also for bank and treasury-notes. To remedy the embarrassment somewhat, cities and towns issued small notes payable in taxes or lawful money. Unless the government should prevent this circulation it was evident that the country would be

¹Act, July 11, 1862, 37 Cong., second session, chap. 142.

² *Ibid.*, July 17, chap. 196.

flooded with a varied fractional currency having very little value, and causing no little vexation and loss in the transaction of business. The law authorizing the use of postage stamps, also provided that after the first day of August, 1862, no private corporation, banking association, firm or individual should issue any note, check, token, or other obligation for less than one dollar, which was "intended to circulate as money or to be received or used in lieu of lawful money."

The use of stamps was not popular. Accordingly, Secretary Chase recommended that fractional currency be authorized as a substitute. Heeding the recommendation, Congress enacted a law¹ which authorized the secretary to issue fractional currency to an amount not exceeding \$50,000,000, and redeemable in United-States notes in sums not less than three dollars, and receivable for postage and revenue stamps, and also in payment of dues to the United States less than five dollars, except duties on imports. It was not a legal tender for private debts, but it served a useful purpose, was convenient, and had the effect of freeing the country from other kinds of small money. About \$30,000,000 were kept in circulation yearly, which bore no interest and was therefore economical for the government. This was finally replaced by silver in 1876.² The amount issued, including reissues, was \$368,720,079.21. A very large amount has not been redeemed, and is doubtless lost. The secretary has written \$8,375,934 off the treasury books, and for the last three years less than one hundred and twenty-five thousand dollars have been redeemed. Not much more, it can be predicted, will ever

¹ Act, March 3, 37 Cong., second session, chap. 73, sec. 4.

² Res., July 22, 44 Cong., first session, No. 17.

be presented for redemption.¹ Of course, this saving effected by the government has been lost by the people. It represents in the aggregate a large sum, though the loss is distributed so widely that no one has ever suffered in consequence.

Thus two issues of legal-tender notes, of \$150,000,000 each, had been authorized, beside endowing \$60,000,000 more of other notes with the same quality. A fractional currency had been authorized, and postage stamps also, for making payments. We are far, however, from the end of the chapter. When a nation has once drank from the paper-money fountain, it is sure to return. Like the lotus-eater, the effects are so bewitching that he longs for more and is never satisfied. When the second legal-tender bill was discussed by Congress, the prophecy was repeated that further issues would be wanted, and, unhappily, the prophecy was fulfilled.

The next issue, which was for paying the soldiers, was authorized in January, 1863.² The amount was one hundred millions, which was increased to \$150,000,000 two months afterward.³ The facts pertaining to this issue will be described in the next chapter, as they are more closely blended with the subject there considered.

¹ The amounts redeemed annually since the issue ceased in 1876 are—

Year.	Amount.	Year.	Amount.
1877	\$14,043,458 05	1881	\$109,001 05
1878	3,855,368 57	1882	58,705 55
1879	705,158 66	1883	46,556 96
1880	251,717 41	1884	20,629 50

The United-States treasurer, in his report for 1884, said that the amount carried to the public-debt statement would prove "to be far below the actual loss or destruction."

² Res., Jan. 17, 1863, 37 Cong., third session, No. 9.

³ Act, March 3, chap. 73, sessions two and three.

Whatever may have been the feelings of others concerning the sudden outflow of so much paper money, Mr. Chase was not alarmed. He remarked, that in former reports he had stated his convictions and the grounds of them respecting the necessity and the utility of putting a large part of the debt into United-States notes, without interest, and adapted to circulation as money. "These convictions," he added, "remain unchanged, and seem now to be shared by the people." But he did not repeat the statement also contained in a former report, namely, that "no more certainly fatal expedient for impoverishing the masses and discrediting the government of any country can well be devised [than] an irredeemable paper currency"—such an one in truth as now circulated among the people. With a spirit of evident satisfaction, he continued, "for the first time in our history has a real approach to an uniform currency been made; and the benefits of it, though still far from the best attainable condition, are felt by all. The circulation has been distributed throughout the country, and is everywhere acceptable."

CHAPTER VI.

PERMANENT AND TEMPORARY LOANS.

JANUARY, 1862, TO JULY, 1864.

IN his first annual report, Mr. Chase recommended the establishing of a national banking system, the issue of demand treasury-notes, the borrowing of money and an increase of taxation. Congress authorized the issue of \$300,000,000 of legal-tender notes and \$500,000,000 of bonds, redeemable at the pleasure of the government after five years, and payable twenty years from date. They were to bear six per cent interest, payable semi-annually, and the secretary could sell them "at any time, at the market value thereof for the coin of the United States," or for any treasury-notes that had been or would be issued. These bonds could not be taxed by State authority, and the interest was payable in coin. They were afterward designated five-twenties.¹ Congress also authorized

¹Act, Feb. 25, 1862, 37 Cong., second session, chap. 33. The 5th section of the Act provided "that all duties on imported goods shall be paid in coin, or in notes payable on demand heretofore authorized to be issued and by law receivable in payment of public dues, and the coin so paid shall be set apart as a special fund, and shall be applied as follows: First. To the payment in coin of the interest on the bonds and notes of the United States. Second. To the purchase or payment of one per centum of the entire debt of the United States, to be made within each fiscal year after the first day of July, 1862, which is to be set apart as a sinking fund, and the interest of which shall in like manner be applied to the purchase

individuals or corporations to deposit United-States notes with the assistant treasurers or designated depositaries for thirty days or longer, on which they were to receive the rate of five per cent per annum.¹ The amount of deposits was limited to \$25,000,000. Congress also provided for a greatly enlarged revenue from taxation.

After the banks paid the last installment of their loan, the secretary was obliged to rely on the feeble income derived from taxation, the use of demand-notes authorized at the July session of Congress, and the cash from light sales of the seventhirties, until authority had been granted to issue legal tenders. Then the legal tenders were put out, and with great rapidity, for the expenditures were heavy, and the income from all sources was insufficient. For several months after authorizing the issue of the five-twenties, their sale was insignificant. Only \$13,990,600 were sold by the close of the fiscal year. That part of the financial plan which provided for the borrowing of deposits was more successful. The banks of New-York City that belonged to the clearing-house deposited \$20,000,000 of government notes with the assistant treasurer very soon after the law was passed,² and used the certificates received from him in settling clearing-house balances. By such action the banks loaned permanently \$20,000,000 to the government, because they were not likely to present these certificates for redemption. Funds of some kind must be kept for paying clearing-house balances, and the above arrangement was very beneficial to the banks as well as to the

or payment of the public debt as the secretary of the treasury shall from time to time direct. Third. The residue thereof to be paid into the treasury of the United States."

¹ Act, Feb. 25, 1862, 37 Cong., second session, chap. 33, sec. 4. ² March 7.

government. Having thus deposited four-fifths of the amount authorized by law, the question was started in the Senate whether the limit of deposits should not be extended to \$50,000,000. The banks of other cities wished to make deposits, and receive certificates which they could use in clearing-house transactions. The Senate Finance Committee recommended the increase, but some senators were strongly opposed to it. They did not clearly understand the operation of the law. They did not perceive that the deposits were in every sense a loan to the government, like the deposits of individuals to banks which are afterward loaned to others. The debate on the question was interesting, particularly as illustrating the crude ideas which existed in many minds at that time on financial matters. The great debates in Congress before the war had been over constitutional questions. A new era was now begun. Our national legislators had had as little experience in finance as our generals in the art of war. Both classes learned rapidly, though at fearful cost of treasure, life, and happiness.

Mr. Sherman, as on the preceding occasion, was strongly opposed to the receiving of deposits and issuing certificates therefor. "The government," he said in the debate, "gets no benefit from the arrangement at all." The chairman of the Finance Committee thought otherwise. Mr. Sherman, however, maintained "that this was the most futile idea that could enter the mind of any man. At the pleasure of the depositor these notes were made to bear five per cent interest. We must keep them in the hands of the sub-treasurer to pay the certificates of deposit, otherwise we are liable, at any moment, to have our government dishonored." He declared, that the "practical effect" of the measure would be "to compel Con-

gress hereafter to issue an amount of treasury-notes equal to the amount of this deposit." He thought the secretary of the treasury "ought to abandon it," that it was of "no benefit to anybody except the bankers in New York." Another difficulty troubled the senator: If the notes were received and paid out, how could the certificates be redeemed if they were presented? He feared that if the amount of deposits was increased, more government-notes would be issued in order to pay them.

He was answered by Senator Chandler, of Michigan, who, having been a large merchant, and familiar with the banking business, understood the question thoroughly. He said, that the operation of the law was "simply to borrow money by the government at five per cent, when it was offering 7.3 at the same time. What is this proposition? The bankers propose to take, we will say, \$50,000,000 of these certificates of deposit, bearing five per cent interest. That is no temporary loan. You do not keep one dollar on hand in order to pay that—not one farthing. It is precisely like the daily operations of a bank of deposit. The bank of deposit receives from day to day, and pays five per cent interest, but it keeps nothing on hand, because it relies upon the receipts of to-morrow to meet the obligations of to-day. This is precisely the same thing. . . You propose to pay 7.3 per cent interest; you are urging the holders of the notes to come and accept 7.3-per-cent bonds, and now the bankers say, 'If you will give us this kind of security, which we can use in our daily business, we will loan it to you at five per cent.' You are gaining just so much, not losing anything. The notes that are paid in to-day, you pay out to-morrow. It is an absolute loan to the government, and amounts to a permanent loan to them at five

per cent." The senator favored an extension of the limit to \$100,000,000.¹

The limit was extended to \$50,000,000, and in June of the same year the Committee of Ways and Means recommended an increase of as much more. The committee, though opposed to the plan in the beginning, frankly stated that thus far it had "worked very well in practice." Mr. Hooper added, that "it had proved advantageous to the community, as well as to the government, though it had delayed the conversion of the government-notes." To render the redemption of the certificates of deposits more certain, one-third of the second \$150,000,000 issue of demand-notes was "reserved for the purpose of securing prompt payment of such deposits when demanded." They were to be issued and used whenever, in the judgment of the secretary of the treasury, they might be needed for that purpose.²

¹ In June, 1864, the limit was extended to \$150,000,000, and the secretary of the treasury was authorized to pay six per cent interest. In some cases he did not pay over four, as there was no authority prescribing a minimum rate. The deposits loaned to the government amounted to \$716,099,247.16, and the largest amount at any time was on the 12th of June, 1866. The figures at that date were \$149,500,000, or within half a million of the amount which could be legally received.

² Mr. Sherman stated that Mr. Chandler did not seem to understand the difference between a loan and a deposit—a deposit which may be called for at any moment, and a loan which cannot be called for two or three years, or longer period. Mr. Chandler replied: "It is absurd to talk about keeping your notes on hand, to be ready to pay these certificates. How could a bank pay five, three, or one per cent interest, if it had to keep on hand the identical sum deposited, to meet the deposit on which it is paying interest. I know, as a banker and as a merchant, that no banker or merchant in the habit of receiving deposits on call, keeps scarcely a moiety of the amount on hand to meet that call. He receives to-day on deposit, at

This limit was soon reached, and even exceeded before the flow could be checked. The wisdom of accepting these deposits and issuing certificates for them, was vindicated when a stringency happened in the New-York money-market, near the close of 1862. Over fifty millions of the deposits were quickly demanded and paid, thereby relieving the monetary pressure.¹ Notwithstanding the large amount withdrawn, only one-fifth of the fifty million reserve fund was used.

Another form of temporary loans consisted of certificates of indebtedness, which were issued to creditors who were willing to accept them, "in satisfaction of audited and settled claims against the United States, for debts not less than one thousand dollars." They were payable a year from date, and bore six per cent interest. The bill authorizing their issue was introduced into the House by the Committee of Ways and Means, and occasioned no debate. The law was enacted March 1st, 1862.² Nor was anything said during the passage of a subsequent bill providing for the issue of similar certificates to the public creditors, who were willing to receive them in payment of disbursing officers' checks drawn on the treasurer of the United States.³ In March, 1863, it was declared that interest on them should be payable in lawful money. These certificates circulated to a considerable extent, until the accumulation of interest was sufficient to induce the holders to retain them

five per cent, \$100,000. He cannot pay five per cent if he keeps that \$100,000 on hand to meet it; he cannot pay one per cent; he cannot pay a mill. But he pays the five per cent on call, and he relies upon to-morrow's receipts to meet to-day's liability, and to-morrow's receipts meet it. So it is with the government. In a thousand and one ways you are in daily receipt of enough to meet the daily call upon you for the redemption of these certificates."

¹ Ann. Treas. Report, 1863.

² Chap. 35.

³ Ibid., chap. 45.

as an investment. The secretary of the treasury issued them simultaneously with the legal-tender notes, and continued to issue them until the end of the war.

By means of temporary loans and legal tenders, beside the ordinary revenues, Mr. Chase, for a considerable period, satisfied the demands on the treasury department. The expectations concerning the sale of bonds were not realized. The people took the treasury-notes and parted with them speedily; they invested in a thousand ways, but very timidly in government-bonds. For once, that great war legislator, Thaddeus Stevens, as full of hope as he was of years, had failed in prophecy. In his annual report, Secretary Chase said, that two defects inhered in the law authorizing the bonds which prevented their sale. One was the provision for selling them at their market value, and the other was the privilege granted to the holders of the treasury-notes, to exchange them for bonds at par.

“The effect of these provisions was to make negotiations of considerable amounts impossible; for considerable amounts are seldom taken, except with a view to resales at a profit, and resales at any profit are impossible under the law. Negotiations below market value are not allowed, and if not allowed the taker of the bonds can expect no advance, unless a market value considerably below par shall become established. The Act makes advance above par impossible, by authorizing conversion of United-States notes into bonds at that rate.” He therefore recommended the repeal of both provisions.¹ The

¹ The suspension of the right to convert the legal tenders into bonds was started by Senator Collamer, of Vermont, in order to make a better market for the bonds. Rep. of Com. on Finance, Dec. 17, 1867. Senate No. 4, 40 Cong., second session, p. 13. The committee in that report recommended its

first provision imposed a restriction which Congress did not intend, and the second had been followed by the inconveniences that were feared, and not by the expected benefits. "Convertibility by exchange at will is of little or no advantage to the holder of the notes, for the clauses which secure their receivability for all loans make them practically convertible. Whenever the volume of notes reaches a point at which loans can be effected at rates fair to the country and desirable to takers, loans will, of course, be made, and ample opportunities for conversion offered."

On these recommendations was founded a bill for a loan of \$900,000,000, which conferred extraordinary powers on the secretary of the treasury, and "which ultimately," as Mr. Spaulding truly says, "led to a dangerous expansion of credit circulation in various forms, and in connection with the bank-bill, which passed about the same time, to an enormous inflation of prices, caused by the over-issuing of paper money, which came very near proving fatal to the finances of the government and the legitimate business of the country."

During the discussion of the bill one of the reasons given for the small sale of bonds was a lack of currency. This reason was founded on the fact that the secretary had not been able, without much difficulty, to get legal-tender notes when selling bonds and the seven-thirty notes. This fact, however, was interpreted very differently by others. "His notes did not go in to be funded in the long loans, because they were made a legal tender," said a very high authority.¹

restoration. Senator Collamer was one of the strongest opponents of the legal-tender laws, and jealously regarded the faith of the nation and the rights of creditors; yet he strayed a long way from his accustomed path in this matter.

¹ James Gallatin, *National Finances*, p. 4.

Another reason given was because they were neither a long nor a short bond, as they were payable after five years if the government desired. If the time had been fixed, or the option given to the lender, the result would have been different; so it was affirmed. But the secretary believed "that the time and rate of the five-twenty loan authorized were judiciously determined. . . No prudent legislator," he adds, "at a time when the gold in the world is increasing by a hundred millions a year, and interest must necessarily and soon decline, will consent to impose on the labor and business of the people a fixed interest of six per cent on a great debt for twenty years, unless the necessity is far more urgent than is now believed to exist. The country has already witnessed the results of such measures in the payment, in 1856, of more than four and a half million dollars for the privilege of paying a debt of less than \$41,000,000 some twelve years, averaged time, before it became due." Subsequent events proved the wisdom of adhering to the plan of short payments and the reserving of the option to pay by the government. This was one of the most commendable features in Secretary Chase's administration of the treasury.

Before the bill had passed, the need of money had become so great that more legal-tender notes to the amount of \$100,000,000 were issued. Large sums were due to the army and navy, and complainings were heard everywhere. The House asked the secretary "to furnish the reasons why requisitions of paymasters in the army are not promptly filled." "No one," he replied, "can feel a deeper regret than the secretary that a single American soldier lacks a single dollar of his pay, and no effort of his has been wanting to prevent such a condition. It is not in his power, however, to arrest the accumu-

lation of demands upon the treasury beyond the possibility of provision for them under existing legislation. . . . The secretary, solicitous to regulate his actions by the spirit as well as the letter of the legislation of Congress, did not consider himself at liberty to make sales of the five-twenty bonds below the market value, and sales except below were impracticable."

Although he placed this construction on the law many others did not. Congress, notwithstanding a strong desire to second the efforts of Mr. Chase, and to sustain him, was growing dissatisfied with him. On this occasion, Mr. Gurley, of Ohio, whose devotion to the Union was quite as strong as that of the secretary, remarked, after this communication had been received, that Congress authorized the secretary of the treasury to sell the five-twenty bonds at the market value, which he had not done as intended by Congress, and the consequence was that the soldiers and sailors were not paid, as they ought to have been. "Of course," he continued, "we do not call in question the motives of the secretary, or deny his good intentions; but when the secretary says, in his reply to the resolution of the House, that he had no authority, he was evidently mistaken in his construction of the law. The words, 'market value,' do not mean par value, nor at any specified time or sum. The market value was the price they would bring when offered in the market. There has been no business day or week since the law was passed when any of the many agents of the secretary in New York could not have placed one million, or several millions, in the market, and sold them somewhere near par, to raise money to pay the army and navy."

A joint resolution was passed declaring that steps be taken immediately by the treasury department to pay the soldiers

and sailors, and that a preference should be given to this class of creditors. Sixty millions were needed for the purpose. The secretary of the treasury was consulted, and he thought the legal-tender bill might give temporary relief, but he added, in a communication to the Finance Committee of the Senate when returning the joint resolution mentioned, "It should be regarded, however, only as an expedient for an emergency. No measure, in my judgment, will meet the necessities of the occasion, and prove adequate to the provisions of the great sums required for the suppression of the rebellion, which does not include a firm support to public credit through the establishment of a uniform national circulation, secured by bonds of the United States."

This was his pet measure from the beginning until its adoption for raising money to carry on the war. Secretary Chase was persistent, and having made up his mind, as he said, with reference to issuing legal-tender notes, he did not hesitate afterward. But why did he rely so strongly on this measure which he knew Congress was reluctant to pass and which the banks opposed, and make such feeble efforts to sell the five-twenty bonds? Because, he said, "negotiations below market value were not allowed, and if not, the taker of the bonds could expect no advance, unless a market value considerably below par shall become established." Certainly this was not the construction which Congress intended. Mr. Gurley correctly stated the intention of that body. The members intended that the bonds should be sold at their "market value." Mr. Chase refused to sell them unless he could get par. The consequence was, that selling none, the treasury department ran ashore, and \$60,000,000 of indebtedness accumulated before any relief could be given. The

soldiers and sailors complained and suffered, the country trembled and feared, and the financial ability of the nation was terribly shaken. Mr. Chase, however, had the satisfaction of holding fast to his bonds, however great might be his shipwreck of the treasury. Had he sold the bonds as he ought, and as Congress expected he would do, the public debt would not have accumulated; by refusing to do this, through inability to get as much as he desired for them, he paved the way for issuing more greenbacks—a step that he greatly deplored. A financier never lived disliking a financial system or policy so strongly as Mr. Chase, who, nevertheless, so persistently followed it, and who with equal persistence continued to take those steps which would compel him to follow it. He forced himself into the trap, and was continually weaving the web tighter, thus making release more and more difficult. A sadder example of financial helplessness has been rarely seen.

The bill authorizing this issue of \$100,000,000 of legal-tender notes was different from either of the preceding measures relating to the subject. Authority was granted by a joint resolution, which was first passed by the House, and in which the Senate concurred by a vote of thirty-eight to two. The secretary was authorized, “if required by the exigencies of the public service, to issue on the credit of the United States the sum of one hundred millions dollars of United-States notes, in such form as he might deem expedient, not bearing interest, payable to bearer on demand, and of such denominations, not less than one dollar, as he might prescribe, which notes thus issued should be lawful money, and a legal tender like similar notes previously authorized, in payment of all debts, public and private, within the United States, except

for duties on imports and interest on the public debt; and the notes so issued should be part of the amount provided for in any bill pending for the issue of treasury-notes, or that might thereafter be passed by Congress.”¹

President Lincoln signed the bill, but while doing so thought his duty required him to express his sincere regret that it had been found necessary to authorize so large an additional issue of United-States notes when their circulation and that of the suspended banks together had already become so redundant as to increase prices beyond real values, thereby augmenting the cost of living to the injury of labor and the cost of supplies to the injury of the whole country.

It seemed very plain to the President that continued issues of United-States notes, without any check to the issues of suspended banks, and without adequate provision for the raising of money by loans, and for funding the issues so as to keep them within due limits, must soon produce disastrous consequences. He favored the adoption of the national bank system, and “a reasonable taxation of bank circulation” to prevent the deterioration of the paper money of the country. But Congress had already made “adequate provision for the raising of money by loans;” the failure to get it was Mr. Chase’s, who would not execute the law because people would not give quite as much for the bonds as he thought they ought.

Congress should have been warned by the singular misconception which the secretary had placed on the law suspending the sub-treasury regulations, and on that relating to the sale of five-twenty bonds, to frame the laws regulating the finances as plainly as possible, granting to him no more discretionary power than was absolutely necessary. Never-

¹ Jan. 17, 1863, 37 Cong., third session, No. 9.

theless, in the clear light of what the secretary had done, and realizing, to some extent at least, the greatness of his blunders, Congress passed another loan bill, which conferred larger authority on the secretary than any previous measure. ³

The bill was approved in March, 1863,¹ and authorized a loan of \$300,000,000 for the current year, and \$600,000,000 for the succeeding fiscal year. The bonds were to be issued for not less than ten, nor for more than forty years, payable in coin, and the interest was not to exceed ten per cent. The second section of the Act authorized the secretary to issue \$400,000,000 of treasury-notes, payable within three years, bearing no higher interest than six per cent, payable in currency at certain periods. They might "be made a legal tender to the same extent as United-States notes for their face value, excluding interest," if the secretary should think advisable. If issued, they were to be in lieu of the bonds above mentioned. By the third section, legal-tender notes similar to those first authorized, "if required by the exigencies of the public service for the payment of the army and navy, and other creditors of the government," might be issued to the amount of \$150,000,000. The restriction pertaining to the sale of the five-twenties at their market value was repealed. The law also provided that "the holders of United-States notes issued under former Acts shall present the same for the purpose of exchanging them for bonds as therein provided, on or before the 1st of July, 1863, and thereafter the right to exchange the same shall cease and determine."

In order, therefore, to expedite the conversion of the notes into bonds, Congress, on the recommendation of the secretary of the treasury, decided to depreciate them by restricting their

¹ Chap. 73.

use. This was truly extraordinary financing. If the government had wished to get the notes to redeem them, the action of Congress would have been rational, but as the notes were to be paid out as soon as received, what policy could have been worse and shorter-sighted than that of depreciating them, and so disabling the power of the government to make purchases? If Mr. Chase supposed he had discovered how to smite the rock and turn the notes into the treasury, he paid very dearly for the discovery when he endeavored to use them in paying creditors. The far wiser policy would have been to sell the bonds for whatever purchasers would pay. In truth, the policy adopted was a subterfuge to cover up the declining faith of the government.

This law was quite unlike the bill submitted by the secretary of the treasury, in compliance with the request of the Committee of Ways and Means and afterward rejected by them. His bill clothed him with extraordinary power to make loans. In a letter accompanying it he said, that "under it the secretary would have power to borrow money in any of the ordinary forms, or, if exigencies required, to make additional issues of United-States notes." While the bill reported by the committee was in the lower House, Mr. Hooper offered as a substitute the secretary's bill, somewhat modified, and embodying ideas derived from several sources, especially from James Gallatin of New York, and Messrs. Stevens and Spaulding of the Ways and Means Committee. The leading feature in his bill was to increase the authority of the secretary to borrow money. By it he was authorized to borrow \$900,000,000, and issue bonds therefor, or three-years' treasury-notes, bearing six per cent or less interest, and which were to be a legal tender for all debts except duties. Mr. Hooper

contended that if the bill of the committee were adopted, in which the amount of treasury-notes was limited to \$400,000,000, the secretary had not the power to convert them. There was danger of a panic or a run on the treasury at some time. Knowing that the secretary had not more than one-half of the amount necessary for that purpose, every man might try to reach the treasury first to get his notes converted. He contended that the bill would be imperfect, unless containing the power to issue an amount of legal-tender notes at least equal to the power of conversion which had been given to the notes issued on time.

Several extraordinary propositions were maintained during the debate, among which may be mentioned, first, that more legal-tender notes were needed to transact the business of the country ; and, secondly, that the preferable policy of the government was to sell its bonds at par, and to inflate the currency, if necessary, to effect this end, instead of selling them at a lower rate and leaving the volume of currency unchanged. In other words, if the currency were made poor enough, the receivers would exchange it for bonds. As the government could force it into the hands of creditors, they would certainly buy bonds with it if these were the best things that could be obtained in exchange. The government might, indeed, debase its currency to any extent, and compel creditors to take it ; but the government could not easily compel persons to furnish new supplies. By adopting the policy of depreciating the currency in order to induce the receivers to purchase bonds, nothing was more certain than an advance on the price of whatever they sold to the government in order to insure themselves against loss by depreciation. Congress entrusted the secretary with the power to dispose of the

bonds at any time, on such terms as he might deem most advisable.

Having been entrusted with unusual authority for borrowing money, we will proceed to show how he exercised it. When the government attempted to sell the seven-thirties in the summer of 1861, Jay Cooke rendered himself conspicuous by the amount of subscriptions he secured, which was more than one-fifth of the whole. His success attracted the attention of Mr. Chase, who now employed him as general agent to negotiate the bonds. He advertised extensively, and employed sub-agents in all the chief towns and cities in the loyal States. He was paid a commission of one-half of one per cent on the first ten millions, and three-eighths of one per cent on subscriptions beyond that amount for selling them. The editors of the newspapers and others were enlisted to bring the advantages and importance of this loan before the people. Mr. Cooke's success was great. The loan became very popular, and was taken by all classes throughout the country. By the 1st of July, 1863, bonds to the amount of \$168,880,220 were taken; three months afterward the amount had swelled to \$278,511,500, and by the 21st of January following the whole sum had been subscribed at par, and the rush was so great at the end that nearly \$11,000,000 had been subscribed, and the sum paid therefor, before notice could be given to sub-agents that the whole amount authorized had been taken. Congress afterward authorized the issuing of this additional amount. "This successful funding of five-twenty six-per-cent bonds," says Mr. Spaulding, "showed conclusively that it was not necessary to inflate the currency any further in order to raise the means to satisfactorily prosecute the war. The six-per-cent bonds would furnish sufficient inducement for people to

take them at the rate of from \$1,500,000 to \$2,000,000 a day, which was about the amount required to pay the daily expenses of the government. It looked as if the limit of paper-money expansion had been reached; that the greenback currency would not further depreciate below the standard of gold; and that the price of commodities would not continue to advance." The flood-tide probably would have risen no higher had not a very extraordinary finance minister, especially for such a time in our history, been at the head of the treasury department.

When the last of these bonds were sold in 1864, the secretary ought to have put the ten-forties on the market and offered the same rate of interest. If he had, they would have been eagerly taken, for they ran ten years instead of five before the government could redeem them, and were therefore a better bond for the people to buy. Had he done so, all the money needed would have been easily obtained. Instead of pursuing this obvious policy, Secretary Chase, without taking advice, and contrary to the opinion of the wisest men of the time, boldly determined to try an experiment. Though he had now been at the head of the treasury department more than two years, he had learned but little, and was just as unwilling as ever to listen to an adviser. He had not yet found out that in times of great public trial, financial experiments, as far as possible, ought to be carefully avoided. During the war of the Revolution, the leaders were obliged to resort to every device to raise money, but when they found a good way for raising some they did not foolishly abandon it for another. Capital is always shy, never more so than when things are unsettled, and Mr. Chase ought not to have experimented with the lenders of capital at such a time if any other course were open to him. He now proposed to do a

brilliant thing, though warned not to attempt it. He determined that the ten-forty bonds should be issued, bearing five per cent interest. What was the consequence? Bond-buying suddenly stopped. Nobody wanted them at that price. Only \$73,337,750 were taken between the 21st of January, 1864, and the 1st of July following, when the secretary retired from his management of the treasury. This amount was taken mostly by banks, as a foundation for the national banks which were now organizing. After trying the market for a short time, and discovering his mistake, the secretary ought to have acknowledged it, raised the rate of interest, and sales would have been revived. Mr. Chase, unwilling to acknowledge his mistake, resorted to an exceedingly costly device to cover his great blunder. This device consisted in diluting the currency to such a degree that the people would take the bonds. Undoubtedly, if a doctor has a patient who at first is not sick enough to take medicine because the taste is disagreeable, he can be made sufficiently sick to take the most distasteful medicine just as quickly as he would the nectar of the gods. Secretary Chase proposed to dose the people with legal-tender notes until they would readily take his ten-forty bonds at five per cent interest. None are so bold on such occasions as those who have no comprehension of the probable or inevitable consequences of their action. His daring was that of a child who moves in joyous ignorance amid great peril.

Accordingly, the policy of further inflation was begun. That we have not in the least misinterpreted Secretary Chase's intention is clearly shown by the following extract from a letter, written by Mr. Spaulding on the 11th of April, 1864, to a banking house in New York: "It has been

supposed that by this policy of inflation a five-per-cent ten-forty bond might be floated nominally at par. Funding the present excessive floating debt at five per cent interest is better than not to be funded at all, and I hope that the bonds now offered at five per cent may be taken up rapidly, and that the evils of the present inflation may be removed; but I fear the conversions will not be rapid enough at this rate of interest. The bonds do not seem to be readily taken as yet by the people. It required the printing and paying out of \$400,000,000 of greenbacks before the five-twenty six-per-cent bonds could be floated easily at par, and it will probably require the circulating paper issues of the government, now amounting to about \$625,000,000, to be increased to \$650,000,000 or \$700,000,000 before the people will be induced to take five-per-cent bonds, in order to get rid of the surplus circulation that may accumulate in their hands, that cannot be more profitably invested in other modes."

This mode of capturing investors by debasing the currency, though delusive, was shared by many persons. Mr. Spaulding seems to have been pretty badly infected with it, and even Mr. Chase's successor in the treasury department did not wholly escape. If a person is acquiring wealth, various considerations enter his mind concerning it. If he is getting houses, lands, and the like, he may ask himself shall they be permanently retained or exchanged for other wealth? Mr. Chase and Mr. Spaulding, and others seemed to think that if money were made plentiful, the possessors would exchange it for government-bonds. Such a conversion was not sure to follow. They would unquestionably exchange it for other kinds of wealth; and this was done. A great variety of exchanges were made. Persons indulged in wonderful extra-

vagance in dress, in living, in houses; they enlarged their factories; they did a thousand things with their money. Some of them bought government-bonds, but the purchases or investments of this nature, even when largest, were very small compared with the purchases of other things, and of which the people might have deprived themselves had they chosen and wished to invest in the government securities. The issue of paper money led many to distrust the government and to hesitate in buying its bonds. If there had been nothing beside public securities for them to purchase, then the bonds would have been sold; the owners of wealth, however, could do numberless things with their accumulations. And in truth they did. The theory of watering the circulation in order to quicken investments in bonds was a fallacy of the gravest magnitude, but one, unfortunately, which many persons cherished. The wider the departure of the government from sound principles in issuing money, the greater was the distrust of thinking men, including a very large class of investors, and the less inclined were they to buy government obligations. They preferred to speculate, to buy railroad-bonds and stocks, real estate, mortgages, to build houses, factories, and the like.

If the secretary had continued to offer the six-per-cent bonds for sale, the tendency of this policy would have been to repress inflation, prevent speculation in stocks, gold, and other commodities, and by thus holding a steady money market, to encourage productive industry and other legitimate pursuits. On the other hand, by exercising the power conferred to issue a large amount of legal-tender and treasury-notes, the currency could not escape deterioration to such an extent as to embarrass legitimate business, to increase the

price of labor, the cost of living, transportation, and the raw materials used in building, manufacturing, and other industrial operations.

Very different, therefore, were the effects flowing from the two policies. Secretary Chase chose the latter. He sinned against the light. The consequences were those which had been prophesied. Said Mr. Spaulding, in a letter written in April, 1864, "It seems to me that the policy of the treasury department for the last three months has been that of inflation, and over-issues of a paper circulating medium. It has, by such a policy, unintentionally stimulated and encouraged speculations in gold, stocks, and other things, rather than to encourage industry, the production of commodities, and other legitimate business. Under this policy, gold has advanced twenty per cent, and the price of labor and commodities continues to increase to such an extent as to render it very embarrassing for business men to carry on their ordinary pursuits. I know very well that these evils cannot be fully guarded against during the prosecution of such a gigantic war, and the large amount of paper necessarily issued by the government; but it is the duty of the government that these evils should be mitigated and rendered as light as possible."

Secretary Chase, therefore, proposed to float his bonds at a fearful cost to the country, evidently supposing that it was better for him to do this than to acknowledge his mistake and seek to repair it. He cannot be excused for this awful blunder on the ground of blindness. He must have seen what he was doing, and traced the demoralization around him to its rightful sources. Others saw; we do not believe that he alone could not see.

The one per cent which he proposed to save would have

been on the whole amount of bonds \$9,000,000 a year, and for the ten years before they could be redeemed, \$90,000,000. This was a large sum, and worth saving, if it could be done without jeopardizing the credit of the government. But the experiment was too hazardous to try at such a time. When the secretary found out that the people did not like five-per-cent interest-bearing bonds, he should have advanced the rate at once, instead of issuing legal-tender notes, and thus adding to the fires of speculation and demoralization which had been kindled by the excessive issues of paper money. As soon as Senator Fessenden succeeded Mr. Chase, the 1st of July, 1864, he withdrew the loan and issued new bonds, bearing six per cent interest.

The abrogation of the right to exchange the legal-tender notes for bonds, by the law authorizing the nine hundred million loan, was regarded by many as a breach of public faith. "It was clearly so," remarked Senator Sherman, several years afterward, "unless we regard it as simply a limitation of the time within which the right to convert should be exercised."¹

So long as the government was borrowing money by issuing bonds, no rights of exchange were impaired, and no public injury was sustained in consequence of changing the law, because, if the people wanted bonds, they could at any time get them. The provision was unimportant until after the government ceased to borrow, when exchanges could no longer be effected. Secretary Chase did not look forward to that

¹ Speeches, p. 245. "It was inserted in the Senate with grave doubts, and the error was, that it was not so framed as to be a mere temporary suspension of a right, and not a permanent denial; a stay law, and not an absolute repudiation under pretence of a short act of limitation."

time. He was thinking of the present, how to raise money in the easiest way to carry on the war. If the provision had not been repealed, after the war closed, it would have been most effective in restoring a sound money standard to the country.

"If the right to fund the greenbacks into the six-per-cent gold-bonds had not been abrogated, no financier or practical business man, whose opinion is worth quoting, can doubt that we would have gone to specie payment within two or three years after the close of the war, in spite of ourselves. The individual indebtedness at the close of the war, in 1865, was small. Every one was comparatively free from debt. The six-per-cent gold-bonds were sought for as an investment. They soon appreciated to par in gold, and if the right to fund had been continued, the greenback currency would have appreciated to par in gold, along with bonds. The legal-tender Act would have served its purpose as a war measure, and we would have returned to the specie standard, without material detriment to the legitimate business of the country."

The cost of repealing this provision, therefore, is measured by what the country suffered during the period between the resumption of specie payments, in 1879, and when they would have been resumed, had the law been left to operate. Congress had legislated far more wisely than they knew, and prepared a way for the people to resume themselves without legislative action. No measure for resuming specie payments possessing higher merit was ever devised. In a thoughtless hour it was repealed. Congress, though, when doing this, did not realize the potency of the measure for restoring the specie standard of payment. All were thinking of the anxious present, and leaving the future for others. No one supposed

that the suspension of specie payments would continue long after the war was over, and if Congress had possessed enough prescience to see how effectively this law could be used to restore them, doubtless it would have been retained, notwithstanding the present evils caused by it. In that event, the people would have worked out their own financial salvation in a short time, and those terrible years of speculation, unprofitable enterprise, unparalleled extravagance in living, general abuse of credit, idleness and widespread demoralization, would have been unknown. Many of the horrors of war would have faded quickly on the return of the sunlight of prosperity. It was much easier for Mr. Chase to dilute the currency than for his successors to restore it to its original condition. In a few months the secretary had accomplished his purpose, but fifteen years were spent in making the currency buoyant enough to float among the specie-using nations of the world.

Another evil flowing from the secretary's abortive effort to issue five-per-cent bonds, was the changing of the standard of value for measuring the legal-tender notes, and thereby unsettling prices, and paving the way for all the evil consequences which followed. When the legal-tender notes were first issued, they were not merely an irredeemable kind of paper money. They could be redeemed in bonds bearing six per cent interest, payable in coin within a given period. There was, therefore, a fixed standard and measure of value for the redemption of the legal-tender notes. Every person who received them, voluntarily or otherwise, knew what he could do with them. He could get government-bonds in exchange. The redemption of the notes was not on demand, as formerly, but after five years, and within twenty, and in the meantime the holder received six per cent interest, payable in coin.

This was the standard of value fixed by the law. It was, in effect, a forced loan from the people to the government, but at a fair rate of interest. When the law of March, 1863, was enacted, giving the secretary of the treasury power to issue bonds, bearing any rate of interest he thought expedient, no longer did any standard of value exist fixed by the law. It rested with him to say from time to time what the rate of interest should be, and to issue and re-issue notes redeemable in them. Under such a system it was impossible for any man to regulate his contracts or business, with much certainty of the future, for no person when he took a legal-tender note could fix in his mind its real value. When the rate of interest was left to the discretion of the secretary, the value of the legal-tender notes was rendered yet more uncertain, and this uncertainty was further increased when exchangeability into bonds at the will of the holder was removed.

When the monetary supply from the sale of bonds was deficient, Mr. Chase filled the gap, as much as possible, by issuing certificates of indebtedness, and also various kinds of treasury-notes which had been authorized by the Act of March 3d, 1863. On the 31st of August,¹ the pay of the troops was due, and the secretary wrote to Mr. Cisco,² the assistant treasurer at New York, "The pay of the army for the current six months will require an addition to the ordinary receipts for bonds of about \$25,000,000, and must be provided for immediately. The best method of doing, so as to guard against all contingencies, is to obtain subscriptions from the banks and bankers for \$50,000,000 of treasury-notes, by which name, as you know, legal-tender interest-bearing notes are described in the Acts of Congress."

¹ 1863.² See 18 Bank. Mag., p. 325.

The banks made the loan desired, and the troops were paid. When receiving the money the secretary wrote to Mr. Cisco: "I hope not to make any additional issues this year at all." On the 22d of December, however, the secretary offered \$35,000,000 more through Jay Cooke & Co. The banks did not get their notes until the middle of January. Half-yearly coupons were attached to them at the request of the banks, and those for December entitled the holders to two months' interest. The notes were issued originally as a legal tender for their face value without the interest. The object of the secretary was to prevent them from circulating. In the bill sent to the House the distinction between the legal-tender nature of the principal and interest was made, in order to compel the holder to keep the notes until they matured or lose the interest. When the banks received them, in discharge of their loan of \$50,000,000, the rates of money in the open market had advanced, in consequence of the operations of the treasury, to eight or nine per cent. The banks therefore proceeded to cut off the coupons, and hold them for redemption and part with the notes.

To remedy this blunder, the secretary ordered the coupons to be cut off by a government officer. This was a purely arbitrary proceeding, and though the banks submitted, the circulation of the notes was not stopped, for they were worth three or four per cent more to use as currency than to hold as an investment.

When the difficulty of cutting off the June coupons by a government officer became apparent, and the requirement was so far changed that this could be done in the presence of a national bank officer, the banks could collect them after making oath of their ownership of the notes to which the

coupons were attached. As soon as they were cut off, the banks sought to employ the notes as currency.¹ By the end of that month Mr. Chase had issued \$44,520,000 of five-per-cent one-year treasury-notes, \$108,951,450 of five-per-cent two-years' notes, and \$15,000,000 of six-per-cent compound-interest notes.² The money obtained from these sources, together with the issue of more certificates of indebtedness, which at that date amounted to \$160,729,000, and more certificates of deposit, and the money received from taxes, enabled him to meet the obligations of the government. The banks had purchased a considerable quantity of bonds, most of which were issued under a law passed in March, 1864,³ authorizing the secretary to make a loan of \$200,000,000 for that fiscal year, in lieu of the same amount of the previous loan, and to issue bonds redeemable after five and within forty years, at the pleasure of the government. The interest was not to exceed six per cent, and to be paid, as well as the principal, in coin. The banks subscribed for their bonds under this Act. They bore, however, only five per cent interest.

¹ 50 Hunt's Mer. Mag., p. 455.

² See page 124.

³ 38 Cong., first session, chap. 17.

CHAPTER VII.

ADMINISTRATION OF THE TREASURY.

JULY, 1864—SEPTEMBER, 1865.

MR. CHASE retired from the treasury department on the last day of the fiscal year 1864. His retirement was first known by the Senate when President Lincoln sent in the name of David Todd, of Ohio, for secretary of the treasury. Gov. Todd declined the appointment, and William P. Fessenden, United States senator from Maine, succeeded to the office.¹

Mr. Chase had served his country at a trying time. That he was ignorant of finance when he accepted office was no fault; but his unwillingness to learn cannot be excused. It has been said that if he had listened to those who manifested even more than an apostolic readiness to exhort and rebuke, he would have been overrun with self-appointed teachers, yet he might have safely asked counsel of a few and turned a deaf ear to others. The bankers in New York and other places were not less deeply moved than Mr. Chase by the events around them, nor less desirous of aiding the cause of the Union. Among these he could have found some who would have kept him from making mistakes and saved his country from their consequences. Mr. Chase was too self-contained, and lacked somewhat of that keen sense of the

¹ He was appointed July 1.

highest kind of trusteeship, which leads the executor to regard his trust more highly than himself. Mr. Chase never lost his own personality in an absorbing zeal and disinterestedness for the public good. Events were turned to personal use ; he could never regard himself simply as a piece of a great machine for accomplishing a public end. From the outset, if always sincerely desirous of promoting the public interests, his eye was fixed even more keenly on his own advancement.

Mr. Chase did not have the openness of mind characteristic of a great man. He did not live by ideas like Edmund Burke. At one time a large amount of gold had accumulated in the custom-house at San Francisco, and the question was asked what should be done with it. An official in the treasury department replied, "Ship it to London and draw against it." Mr. Chase ridiculed the reply. Yet not long afterward the gold had disappeared from San Francisco, and when inquiry was made concerning its use, what was learned? The secretary had quietly given orders to send the gold to London and sell it, thus adopting the plan he had ridiculed, but without acknowledging his error to the person who proposed it.¹ Nor did he, except on very few occasions, acknowledge his mistakes. Those who walk in the paths of humility are not numerous. A great man does not hesitate to acknowledge his mistakes, for he is conscious of the security of his position. Unskilled in finance, unwilling to learn, and, when going astray, persisting in his course, Mr. Chase's failure was inevitable.

We readily admit that his task was tremendous. He increased it, though, a thousand-fold, by repelling the confidence of those who were eager to support him, and by persisting in

¹ See Ann. Treas. Report, 1864.

a policy at the opening of the war which he was told in plainest language would be suicidal. The suspension of specie payments might have been necessary before the war ended. Had Mr. Chase, though, adopted the advice of the banks, they could and would have largely supplied him with the necessary funds, and the amount of paper money issued toward the close, if at all, would not have been enough to cause that wild revolution in prices which followed the early suspension of specie payments, with all the accompanying evils of enlarging the public debt and the burdens of subsequent debtors. These and other consequences we must largely ascribe to the unwisdom and perversity of Mr. Chase. The blunders of no administrator of the treasury department were ever so costly, or so patiently borne.

That he had an ambition to succeed Mr. Lincoln was in no wise discreditable. In acting, he moved in the trying light of this ambition, and his conduct was not altogether blameless. All depended on the ideal within, and the kind of popularity and support he sought to gain. Pericles commended himself to the best citizens of Athens, and so far as Mr. Chase imitated the accomplished Athenian's example, no praise can be too great. That he truly meant to do right, and serve his country well, we have not the slightest doubt; that his consuming passion to become president led him to pursue a policy which was always consistent with the public good may be doubted, if our account of his official career be correct. To what extent his administration was unfavorably affected by the presidential fever, which raged within him to the end of his days, cannot be determined. It has been said that one reason why he so persistently advocated the establishing of the national banking system was because he believed the people would think more

frequently and favorably of him as a presidential candidate. Statements and inferences of this nature can be more easily made than proved, and we would not condemn him too severely, for his faults are the inheritance of the race; we may mourn because saints and angels do not live amongst us, yet we must not censure all the less lovely spirits who are dwelling on the earth and occupying high places. Mr. Chase had no more ambition than millions of others, and if he was washed upon the rocks in trying to grasp the prize, his fate was like many before him, and perhaps a countless throng who are to follow. If the evil consequences to his country from his untoward course were tremendous, let us remember this was because of the time in which he happened to serve, and that others who have filled the treasury office in a less eventful time might, if serving when he did, have blundered far worse than himself.

Mr. Chase would have been obliged to retire from the treasury department sooner had not the President feared worse consequences from a change. Napoleon's regard for scientific men led him to put Laplace at the head of the financial department of France; but as soon as the emperor learned that one might excel his contemporaries in mathematics and astronomy, and yet know nothing about finance, he displaced the astronomical financier with another who turned his eyes less frequently toward the heavens. Mr. Lincoln moved more slowly, delaying to make the change until long after the general confidence in Mr. Chase's ability to manage the finances successfully had given way.

Fessenden, who succeeded Mr. Chase, was of a different type. He had served efficiently as a member of the Finance Committee of the Senate, was familiar with the subsequent

financial operations of the government, and had the complete confidence of all. Of the purest private character, devoted to his country, not over-confident in his abilities, and desirous of knowing more, a better choice probably could not have been made. He accepted the office reluctantly, and, though serving as secretary only eight months, rescued the treasury department from the grave disorder into which his predecessor had plunged it.

When he began his administration on the 1st of July, he found, so he said afterward, "his condition peculiarly embarrassing." The cash balance in the treasury was \$18,842,558, and the unpaid requisitions were \$71,814,000. The amount of certificates of indebtedness outstanding was \$161,796,000. The daily expenditures exceeded two millions and a quarter. The larger portion of unpaid requisitions was for pay to the army, which would be increased over fifty millions on the 1st of September. How were these obligations, beside others accruing daily, to be met? From customs he could expect no substantial aid, for all the revenue coming from that source would be needed to pay interest on the bonds that had been, or soon would be, issued. The amount of internal revenue, however, had been steadily increasing from month to month, reaching nearly \$15,000,000 for June. The secretary confidently hoped for a daily average of three-quarters of a million from this source during the succeeding months. "But this hope, if realized, would still leave him with a very large deficiency, to meet which, in part, he might issue certificates of indebtedness to public creditors. It was desirable, however, to avoid, could other means be found, increasing the amount of these securities." He could have recourse to the power conferred by an Act passed on the last day of the former fiscal

year.¹ That Act authorized a loan of \$400,000,000, for which bonds could be issued, redeemable after five or within thirty or forty years, as the secretary might determine. They were to bear six per cent interest, payable in coin. He could issue, however, in lieu of half this amount of bonds, \$200,000,000 in treasury-notes, of any denomination not less than \$10, payable at any time not exceeding three years, or, if thought more expedient, redeemable at any time after three years from date, and bearing interest not exceeding 7.3 per cent per annum, payable in lawful money at maturity, or, at the discretion of the secretary, semi-annually. These notes could be sold by him on the best terms obtainable, and those made payable principal and interest at maturity were to "be a legal tender to the same extent as United-States notes for their face value, excluding interest." They were to be convertible, at the discretion of the secretary, into any bonds issued under the Act, and might be substituted in lieu of any notes of the government which might be redeemed and cancelled. By this Act the secretary was also authorized to sell any five-twenty bonds remaining unsold, authorized by previous Acts, and to receive in payment lawful money, or, at his discretion, treasury-notes, certificates of indebtedness or certificates of deposit. As \$62,191,400 of treasury-notes, issued under other Acts, had been redeemed and cancelled, these could be replaced in addition to the \$200,000,000 of treasury-notes just mentioned. Finally he had authority under the Act of March 3, 1863, to borrow \$160,063,220, the remainder of the nine hundred million loan.

The secretary was determined to issue no more legal-tender notes if he could obtain means in any other way. "Flushed

¹ 38 Cong., first session, chap. 172.

as the money market was with circulation, sufficiently, at least, to meet the necessities of business, he was anxious, if possible," to use his own words, "to avoid so doubtful an expedient." The prospect of negotiating a loan in the ordinary way was by no means flattering, as the notice for a loan of thirty-three millions advertised on the twenty-fifth day of June had been withdrawn on the 2d of July, the secretary having reason to believe that such a loan would not be taken on terms which it would be for the interest of the government to accept.

Mr. Fessenden then sought to borrow \$50,000,000 of the banks in New York, Philadelphia, and Boston, on the pledge of bonds and notes which he had authority to issue. He met the representatives of a large number of banks, yet, notwithstanding "a real desire to aid the government," they were not able to furnish the assistance required on terms which the secretary could accept. The only alternative was, "to issue legal-tender notes to a very large amount, or again advertise for a loan." "He had no hesitation," he says, in his annual report, "as to which course should be adopted." Accordingly, on the 25th of July, he issued proposals for a national loan, the lenders to receive treasury-notes payable in three years, with semi-annual interest at 7.3 per cent in lawful money. "He incurred a considerable expense in advertising this loan, believing that it should be as widely diffused and as generally understood as possible, and offered liberal inducements to stimulate the efforts of corporations and individuals to dispose of the notes." His success was not as great as he expected, for the reason mainly that other national securities were pressing on the market which were preferred by investors.

The amount of suspended requisitions had swelled to more

than \$130,000,000. A large sum was due to the soldiers, who "were suffering from the long delay in satisfying their just claims." The secretary was resolved "to use all the means at his command to pay at least" this class of creditors. Many of them, through the paymasters, had expressed a wish to receive seven-thirty notes of small denominations in payment. They were taken to a large amount, the soldiers in many instances also expressing satisfaction because they were able to thus aid the country by loaning money to it. The amount of notes paid to the soldiers at this time exceeded \$20,000,000.

Once more the secretary endeavored to sell bonds. He offered those which Secretary Chase had advertised on the 25th of June, and not finding purchasers at satisfactory prices, had withdrawn. The amount was \$32,459,700. The public were now ready to take them, bids reached nearly \$70,000,000, and the premium offered was four per cent, and in some cases even higher.

Encouraged by this success, the secretary, on the 1st of October, advertised for another loan of \$40,000,000 of fifty-two bonds, issued under the June Act of 1864. At that time the money market was in a feverish condition, arising from violent fluctuations in gold and other causes, and serious doubts were entertained whether acceptable offers would be made. "Under these circumstances, and with the hope of affecting favorably the market price of certificates of indebtedness, which had become somewhat depressed by the large amount to which the issue had been necessarily increased, the secretary decided to receive one-fourth of the subscription in these securities. The result was that bids were received amounting to nearly \$60,000,000, and the whole amount

offered was taken at a rate above par, and averaging to the government a fraction less than one per centum."

Although Secretary Fessenden had been successful in raising money to sustain the government, he was heavily weighted with anxiety and trial. The national banks were dissatisfied, not with him, but with the law under which they were living. It was reported in November that the secretary intended to recommend to Congress the payment of custom duties in legal-tender notes, for the reason that such a policy would reduce both the price of gold and the public expenditures. His annual report was awaited with dreaded impatience, and especially an announcement of the issue of more legal-tender notes. Many persons feared the results of such a policy. They were bold in declaring that the country would suffer less by the sale of bonds at seventy-five cents on the dollar than by a greater dilution of the currency, and the raising of the price of gold and other commodities.

The secretary, in his report, declared that it was difficult to fix on any policy not subject to the contingencies of the hour. It was, in his judgment, not only difficult, but impossible, to apply fixed rules to a condition of affairs constantly changing, or to meet contingencies which no human wisdom could foresee, by a steady application of general laws, especially in a government, and with a people where public opinion was the controlling element, and that opinion was not under the direction of those who might happen to administer public affairs. Mr. Fessenden also maintained that a wide discretion should be entrusted to the officer charged with the duty of negotiating loans, in order that he might be enabled to avoid unexpected difficulties occasioned by possible conditions of the money market. This duty must necessarily be entrusted to

somebody, and the people could have no other reliable security for faithfulness than might be found in the established character of the individual charged with so important a trust, whoever he might be. "The discretion thus confided should, in the opinion of the secretary, include the power of increasing the currency." He declared that to no individual would any considerable addition to the circulation, in any form, be more objectionable than to himself, and "no one would resort to such a measure, when the circulation was adequate to the wants of business, with more reluctance." He did not believe that a patriotic people, possessed of ample means, would compel him to adopt a measure so fraught with injurious consequences as an issue of paper money beyond the limit thus prescribed. It was, however, for the people to determine whether the necessary means should be furnished by way of loans, and the circulation be restrained within safe limits, or whether they would prefer to endure the evils of exorbitant prices, with a loss of credit in the present, and a debt of needless magnitude entailed on the future.

The people had indeed, within a few months, expanded the circulation, by employing as money a large amount of interest-bearing treasury-notes issued by the government. When authorized, Congress did not suppose they would be used to swell the monetary stream. Those issued with coupons proved especially objectionable, because they were hoarded before the time for paying interest on them, and immediately afterward rushed into the market. In consequence of this unexpected result, Mr. Fessenden withdrew and destroyed a large amount, filling their place with notes payable in three years, bearing six per cent interest compounded semi-annually. No specific law authorized the issue of such notes. As, how-

ever, the interest at six per cent compounded would be considerably less than 7.3 annual interest, which the secretary was authorized to offer, their issue was lawful. They were issued on the belief that the owners would be more likely to hold them until maturity as an investment. In his annual report, Mr. Fessenden said that he was unable to determine what proportion might be considered an addition to the circulation. To that extent, whatever it might be, they occasioned, and in a greater degree sustained, an increase of prices and depressed values. Their circulation continued throughout the war in a varying manner, until, in truth, they were paid by Mr. McCulloch.¹

While Mr. Fessenden was secretary of the treasury, a noteworthy recommendation was made concerning the payment of interest. As the probable supply of coin would be insufficient to pay interest in coin on a much larger amount of securities than already existed, he was forced to the conclusion that the government in the future must rely, for the most part, on securities bearing interest in currency, convertible into others bearing interest payable in coin. The annual coin interest at that time exceeded fifty-six millions. In the secretary's judgment, notes bearing an increased rate of interest payable in currency, redeemable in three or five years, and convertible at maturity into five-twenty bonds, would be preferable to any other form of security. Bonds at long date, bearing interest payable in currency at the usual rates, would be less attractive, and in the end involve a much greater sacrifice. The seven-thirty notes authorized by the Act of the previous June presented as many advantages as any form of currency security, uniting, as they did, a high rate of interest with convertibility. The

¹ See McCulloch's letter, dated Oct. 3, 1878, New York Tribune.

secretary, therefore, made known plainly his intention to issue seven-thirty notes, unless Congress provided other ways of getting money.

On the 10th of December, Mr. Fessenden gave notice that the treasury department was ready to pay in lawful money, or by conversion into bonds, the three-years' treasury-notes issued under the law of July, 1861. They were duly converted into other notes and bonds. No notes of later issue became due until after the close of the war. The secretary negotiated a twenty-five million loan with the banks of New-York City in December, which subjected him to unfavorable criticism. It was maintained that the negotiation ought to have been public, and all capitalists have had an opportunity to make bids. Having been re-elected to the Senate, he determined to leave the treasury by the 5th of March, and this determination unfavorably affected the latter part of his administration. It was felt that his course was less clearly determined because of his intention to retire from the treasury office. By the issue of seven-thirty notes, the revenue from taxes, and the sale of bonds, he was able to meet all pecuniary obligations. The revenue from internal sources was now very large, and greatly strengthened the credit of the government. The people, after three years of doubting, had learned more perfectly the measure of their capacity to pay taxes for carrying on the war.

On the 3d of March, 1865,¹ the secretary was authorized to borrow \$600,000,000, and to issue bonds or interest-bearing treasury-notes therefor. He could determine whether to pay the interest in coin at the rate of six per cent, or in currency

¹ 38 Cong., second session, chap. 77. See *Ibid.*, Act, Jan. 28, 1865, chap. 22.

at 7.3 per cent interest. The bonds were to be redeemable after five years, and the treasury-notes were to "be made redeemable or payable at such periods, as in the opinion of the secretary of the treasury," might be deemed expedient.

Hugh McCulloch, who had previously served as comptroller of the currency, succeeded Mr. Fessenden at the beginning of President Lincoln's second administration. During the month of March, he issued \$70,000,000 of three-years' treasury-notes, bearing interest payable in currency, and convertible at maturity, if the holders desired, into five-twenty bonds. In April, Richmond was captured, and soon after the Confederate armies surrendered. The secretary knew that these events would be followed by the early disbanding of the Union armies, and by heavy requisitions for transportation, pay, and bounties. How he raised the money cannot be told in a better way than by himself. "As it was important that these requisitions should be promptly met, and especially important that not a soldier should remain in the service a single day for want of means to pay him, the secretary perceived the necessity of realizing, as speedily as possible, the amount—\$530,000,000—still authorized to be borrowed under the March Act of 1865. The 7.3 notes had proved to be a popular loan, and, although a security on longer time and lower interest would have been advantageous to the government, the secretary considered it advisable, under the circumstances, to continue to offer these notes to the public, and to avail himself as his immediate predecessors had done, of the services of Jay Cooke in the sale of them. The result was in the highest degree satisfactory. By the admirable skill and energy of the agent, and the hearty co-operation of the national banks, these notes were distributed in every part of the Northern, and

some parts of the Southern States, and placed within the reach of every person desiring to invest in them. No loan ever offered in the United States, notwithstanding the large amount of government securities previously taken by the people, was so promptly subscribed for as this. Before the 1st of August, the entire amount had been taken, and the secretary had the unexpected satisfaction of being able, with the receipts from the customs and the internal revenue, and a small increase of the temporary loan, to meet all the requisitions." On \$230,000,000 of the notes issued, the government had the option of paying six per cent interest in coin, instead of 7.3 in currency. The secretary reserved this option, "because he indulged the hope that, before their maturity, specie payments would be restored, and because six per cent in coin is as high a rate of interest as the government should pay on any of its obligations."

Our imperiled Union, therefore, had emerged from the dreadful contest, not only with increased honor and political strength, but with restored national credit. By thus obtaining voluntarily from the people more than \$500,000,000 in three months—an event then unique in the history of national borrowing—a successful public application had been made for the first time, of the familiar personal doctrine, that by spending wisely our riches are increased.

Such, in brief, is a history of the loans authorized and negotiated for maintaining the government during the war. The principal Acts authorizing loans beside the legal-tender notes were passed February 25, 1862, which authorized \$500,000,000 of bonds; the \$900,000,000 loan Act of March 3, 1863; the \$200,000,000 loan Act of March 3, 1864; the \$400,000,000 Act of June 30, 1864, and the \$600,000,000

Act of March 3, 1865. There were other Acts, as already mentioned; these five, however, contained the authority for making the great loans of the war.

Since the beginning of the special session of Congress, in 1861, said Mr. McCulloch, in his first annual report, the most important subject which had demanded and received the attention of Congress, had been that of providing the means to prosecute the war; and the success of the government in raising money was evidence of the wisdom of the measures devised for that purpose, as well as of the loyalty of the people, and the resources of the country. No nation, within the same period, had ever borrowed so largely, or with so much facility.

CHAPTER VIII.

EFFECT OF ISSUING LEGAL-TENDER NOTES AND SUSPENDING SPECIE PAYMENTS.

HAVING shown how a section of the national-bank bill was transformed into a law authorizing the issue of demand treasury-notes endowed with a legal-tender quality, we shall trace the effects of this legislation on the morals and prosperity of the people. Some of these effects were immediate and brief, while others are yet felt like the agitation of the sea, which continues long after the storm has passed away.

The suspension of specie payments also produced a series of effects which are worth careful study. These, as well as the effects of issuing legal-tender notes, will be traced in this chapter.

When the first bill authorizing the issue of legal-tender notes was before the House, Mr. Horton, of Ohio, set forth in a speech the principal effects which would follow if the notes were issued. They would be paid to contractors of the government, who would pay them to their debtors. They, in turn, would be anxious to get persons to take them, and money would seem for the time to be abundant and trade active. All parties, however, would find out that the government had wronged somebody. And what would the contractors do next?

"They will bide their time. The government is obliged to get supplies, and the contractors will put their supplies up to the amount they have lost, and ten or fifteen per cent more."

Mr. Horton then described the effects of the Act among the people. "The first shock will be that the moral sense of the country will be outraged. Your friends and neighbors will not at first be made to believe that it is right when they have agreed to pay a hundred to get a clear receipt for eighty-five, or ninety or ninety-five." The next effect, he maintained, would be confusion and uncertainty in relation to the value of all exchangeable things. Prices, too, would be inflated. "There are some things," he remarked, "which cannot be done. Inflation of prices, although it might not be rapid, and although the country might not be ruined at once, and although we might not find ourselves in that Serbonian bog in which whole armies have sunk at once, we will get there soon enough. And, when inflation of prices begins, exports decrease and imports increase. Agricultural interests will be injured to an incalculable extent, and the next great result will be upon us, which is the export of gold out of the country to pay debts abroad for excessive importations, superinduced by the inflation of prices here. We shall not then be able to say, as we can now, 'The farming productions of the West have been sent abroad to such an extent that even gold has been brought back to pay the balance of trade in our favor.' In the end the government will be mostly the loser by the inflation of prices, because it has to buy such an immense amount of supplies, and the contractor will hold in his hand, not the legislative power, but the practical power, to say, here is my property, and you shall have it for such a price, and not for less." All classes of labor, also, he maintained, would be injured "by this great act of oppression. You render the standard of payment uncertain, and they never will know what their wages are for a day's work." The capitalist of

New York, the millionaire, here and there, would take care of himself and send his means out of the country. But the worst effect of all was the disgracing of the government. It was worse than "forty defeats on the battle-field. It could not be wiped out by any future heroism. It was saying to the world that we were bankrupt, and that we were not only weak, but not honest." No other member of Congress¹ described the probable effects of the bill during the debate with so much prescience. He described, however, only the injurious and malign effects, and was unable to foresee any good result from the use of this expedient. Nevertheless, good was mingled with the evil, and the truth of history requires that all the effects should be traced and set forth in their proper light.

The first noteworthy effect of suspending specie payments was the increase of bank circulation.² After the suspension of specie payments in 1812 the same thing happened. The

¹ Representative (now Senator) Morrill, of Vermont, stated the effects of the measure in the following succinct and forcible language: "I maintain that the bill should not pass, because it will infinitely damage the national credit; because it will cut off all other chance of supplies; because it will reduce our standard of legal tender already sufficiently debased; because it will inflate the currency, and increase manifold the cost of the war; because it would slide into the place of proper taxation; because, as a resource, it must ultimately fail, and tend to a premature peace; because it is a question of doubtful constitutionality; because it is an *ex post facto* law, immoral, and a breach of the public faith; because it will at once banish all specie from circulation; because it will dampen the ardor of our men at home, as well as soldiers in the field; because it will degrade us in the estimation of other nations; because it will cripple American labor, and throw at last larger wealth into the hands of the rich; and,—because there is no necessity calling for such a desperate remedy."—*Cong. Globe*, Feb. 4, 1862.

² 17 Bank. Mag., pp. 401-416, 481-494, 590.

banks multiplied rapidly. In 1861, however, they contracted their obligations preparatory to resuming specie payments, but seeing the treasury continue to issue notes, and becoming convinced that the suspension would last until the end of the war the banks increased their own notes.¹ Within a year after the suspension, the banks in New Hampshire had increased their circulation twenty-seven per cent; those in Philadelphia, one hundred and thirty-eight per cent; in Providence, eighty-six per cent; in New York, sixty-nine per cent; in Massachusetts, twenty per cent; in Baltimore, thirty-two per cent; in Newark, New Jersey, forty-two per cent, while the increase was very large in other States and cities.

Several reasons were given for increasing their circulation. One of the most common of all was, that silver change having become scarce, small bank-notes were needed as a substitute. Another reason was that, in suspending specie payments, gold was withdrawn from circulation, and more bank-notes were needed to fill the vacuum. It was also maintained that large sums were carried by soldiers to the seat of war, and other sums were left by them to support their families, thus diminishing the supply in actual circulation. Moreover, at the time when the suspension occurred, cash dealings had greatly increased; the circulation of Eastern banks was enlarged by sending it to the West to fill the gap occasioned by the failure and closing of Western banking institutions. Another reason given by the bank commissioners of Massachusetts was, that the motive for sending bank-notes for redemption no longer existed, especially of those banks having good credit, because their notes were as valuable as anything which could be obtained for them. "Men hold them and

¹ Amasa Walker, 52 Hunt's Mer. Mag., p. 24.

hoard them, therefore, precisely as they would do with specie, and the volume of the currency becomes greater, precisely as its current grows more sluggish.”¹

Many of the banks put forth no unusual or unjustifiable effort to enlarge their circulation, and were surprised by the event. “They had anticipated a great decline of circulation as soon as the government-notes should come into use.”

¹ Mass. Bank Commissioners’ Rep., 1862. After stating that the total circulation of the banks in Massachusetts had been rapidly increasing, and for some months past, and was increasing still, the “commissioners remarked, that among other causes of the increase was the inconvertibility of paper money, the influence of which upon the circulation cannot be overlooked, though the force of it can never be accurately measured. So long as bank-notes are redeemed in gold upon demand, according to the tenor of the promise which they bear upon their face, the homeward current of the circulation will always be rapid. Beside, the demand which there always is for gold for foreign payments, for distant remittances, and for meeting customs duties, there is a perpetual competition going on between the banks, each striving to enlarge its own circulation, and to drive home that of its rivals. The law of Massachusetts, which prohibits a bank from paying out any bills except its own, helps on the competition; for, the moment a bill is deposited in any bank other than that by which it was issued, it cannot be again used as currency till it has traveled home, by way of State street, and had its convertibility put to the test of actual redemption. When, however, specie payments are suspended, and bills are no longer redeemable in gold, a great motive for sending them home is withdrawn. The tendency of this stagnant money to depreciate from excess, to enhance prices, to stimulate importations, and to drive gold out of the country is too well established by experience in this and other countries to be seriously questioned. Such a depreciation is now attested by the high price of gold, and of all merchandise bought with paper, and it is a calamity calculated to excite the greatest solicitude of our people.”—See *Bank Reports for 1862*, of Maine, New Hampshire, Connecticut, and New York; also, *Annual Report of Secretary of Treasury, on the Condition of the Banks in the United States for 1862*. Ex. Doc. No. 20, 38 Cong., first session.

It extended, notwithstanding the efforts of some banks to diminish their notes; those issued did not come back for redemption; and, on the other hand, fresh supplies were wanted by depositors and customers to provide for tax-rolls or to make other payments.

These reasons for expanding bank issues were not entertained everywhere. A bank officer in Pennsylvania wrote, in December, 1862, "the present expansion of the banks is unjustifiable." The banks had, for the sake of profit, though contrary to prudence, contributed to the expansion. "They will continue to expand," he adds, "until the bubble bursts, or the iron hand of the government interferes to save the people. This *ad libitum* issue of paper is filling up all the channels of circulation, and forcing specie into the clutches of hoarders and the hands of brokers. It is inflating values, stimulating stock speculations, will soon give a fictitious value to real estate, and will end in a crisis such as we have never yet experienced in history."

There was a conservative bank movement in Boston and New York after the suspension, but of short duration. In New York and Pennsylvania the banks dared not enlarge their circulation so long as they declined to redeem it¹ No law existed or could be passed in New York sanctioning the suspension of specie payments. When, however, the legal-tender law was enacted by Congress, in February, 1862, the banks of New York, securely sheltered by it, promptly enlarged their circulation.² Two facts, therefore, sharply stand out in the history of our paper monetary circulation

¹ 16 Bank. Mag., p. 969. The State laws were modified or repealed in 1862, and then the banks enlarged their circulation.

² See R. J. Walker's article in Cont. Monthly, Jan., 1862.

during the early years of the war: First, that the secretary, contrary to the advice of the banks, issued a considerable quantity of demand treasury-notes, which swelled the circulation. They declared, as we have seen, that they could not redeem them in addition to their own circulation. As the treasury was without coin which could be used for that purpose, their redemption was impossible, and the banks believed they would depreciate. The second fact is, while accusing the secretary of the treasury of inflating the currency by issuing treasury-notes, they were doing the same thing. Not all of the banks were guilty of this inconsistency; but many of them swelled their issues, notwithstanding the enormous quantity issued by the government, until they were pressed into the national banking system.

When the inflation of prices began in consequence of increasing the bank circulation and treasury-notes is a question. The superintendent of the banking department of New York, in his annual report, made at the close of 1862, says: "No better barometer whereby to measure the state of the currency can be found than the returns made to this department; and these indicate most clearly that as yet no redundancy of the currency exists. Indeed, the capability of this department to meet the demand for notes was never more severe than it has been during the last nine months. Nor was it the result of a fictitious demand. The banks found themselves embarrassed in the transactions of their business by the want of currency to meet the daily requisitions. Every soiled and mutilated note capable of service was brought into use, and the banks of the East were literally besieged for currency wherewith to move the crops of the West. Engagements were made weeks in advance by those wanting currency, in order to secure a supply,

and numerous facts might be adduced to prove, that with all the issues of the government and the banks, the volume of currency was not in excess of the wants of the country."

The secretary of the treasury, in his annual report, in December, 1862, maintained that no inflation had yet been caused : First, "because the whole quantity of circulation did not, at the time, greatly, if at all, exceed the legitimate demands of payments ;" secondly, "because the whole, or nearly so, of the increase in circulation during the year was legitimately demanded by the changed condition of the country ;" and, thirdly, because the premium on gold had fallen seven or eight per cent within a month from the date of his report. If, however, an "undue expansion had taken place, the obvious and sufficient explanation was the increase of bank circulation and deposits."

That prices had risen to some extent was a familiar fact, but what caused the rise? The enormous demand of the government for commodities was a powerful cause. How far the banks contributed by increasing their notes and deposits, and how far the government by issuing legal-tender notes, is a question, however important, we cannot stop long to consider. The effect of an increase of the circulating medium on prices is determined by the use made of it, and also by the nature of the medium itself. An increase of silver in India for many years had no effect on prices, because it was hoarded, turned into jewelry—in short, was practically demonetized. The legal-tender notes were issued by the government to pay contractors, soldiers, and other persons engaged in the public service. A large portion of these notes found their way to the banks and swelled their deposits. The issues of the banks were paid to persons needing money to discharge debts, and

circulated very much in the same way as the legal tenders. The increase in many cases took the form of loans to ordinary borrowers. They came back, or a portion of them, for deposit, and were re-issued. Both kinds, therefore, circulated among the people, both were deposited in the banks and furnished the loan supply, and both, therefore, had the same influence on prices so far as these were effected by the quantity of the circulating medium. As the banks had issued only \$37,000,000 of notes since the first of the year, and the government had issued during the same period \$80,000,000 of them, the conclusion may be fairly drawn that the government, by its action in expanding the monetary circulation, had done more to enhance prices than the banks.

The opinion of the secretary of the treasury, that the banks, and not the government, was the cause of raising prices, so far as they had been raised by increasing the quantity of paper money, was shared by many intelligent and unprejudiced persons. No one, however, could reasonably doubt that the advance in prices in 1863 was caused chiefly by the enormous demand of the government for many things, and by deluging the land with paper money.¹ The unsettling of prices is always attended with loss and suffering. Their stability is one of the conditions of a true and lasting prosperity; rapid changes mean great gains and losses, and do not often occur in a healthy commercial society. In earlier times, prices were not infrequently changed by debasing the coinage. The kings

¹ "It is said that the excessive bank deposits have as much influence in creating and sustaining high prices as a superabundant currency. This is unquestionably true; but it is also true that excessive deposits are the effect of excessive currency, and that whenever the currency is reduced there will be, at least, a corresponding if not a greater reduction of deposits."—McCULLOCH, *Ann. Treas. Report*, 1865, p. 13.

of France, from the time of Louis VI., asserted the right to change the rating of the coins whenever they pleased. Philip le Bel was so notorious for doing this, that Dante was justified in singing of

* * * the woe that he shall pour
Along the Seine, by uttering coin debased.

During the disastrous reign of John, the rating of the livre or pound, was altered seventy-one times in nine years, between 1351 and 1360. The evils brought to the French people by these alterations in their money standard were terrible; yet our paper-money standard changed far more than seventy-one times during the four years of war, and frequently afterward, until specie payments were resumed. When the metallic standard was replaced by the paper one, evils immediately followed the event, and they increased in number and severity with every additional issue of paper money. Throughout the war, the evils of an excessive paper money were constantly set before the people. One of the first to describe, and also to forget them, was Mr. Chase. Of the banks, some of them were opposed to government inflation, because they feared an increase of prices and other evils; others were opposed because they wished to issue all the paper circulation themselves.

The question has been often asked whether the bank-notes which were issued after the suspension of specie payments, in place of gold withdrawn from circulation, had any effect on prices; in other words, were an addition to the circulating medium. In Philadelphia, during the first part of the year 1862, the amount of circulation was greatly reduced, in consequence of the suspension of specie payments, but afterward the banks issued a considerable quantity of one, two, and three-dollar notes, to supply the place formerly filled with

specie.¹ In other cities a large addition was made to the small-note circulation, for the same reason. One bank officer maintained that the issue of these notes had no effect on prices, because they took the place of the specie, which had disappeared. He further maintained, that the circulation of his bank would have been much larger, if it had not been checked, at times, by using United-States demand-notes. It will not be disputed, that the substitution of bank-notes for gold and silver, which had formerly circulated, did not affect prices, but the entire amount of gold held by the banks at the time they suspended specie payments was not in active circulation. The greater portion was kept as a reserve, and exercised no immediate influence on prices. After the suspension of specie payments, the amount of bank-notes was not reduced much in any State in consequence of that event. The subsequent issues by the banks, therefore, so far as they exceeded the amount of gold formerly in circulation, were a real addition to the currency, whatever may have been their effect on prices. If specie payments had not been suspended, what would have been the effect of these additions? To some extent, probably, prices would have risen. Did that event change the effect of these notes when issued? We think not.

When specie payments were suspended, gold and silver ceased to circulate as money; the former metal became an important article of merchandise, and the transactions in it were of the most serious nature.² Prices were quoted by the paper standard. Measured by this, the price of gold fluctuated greatly at different times, nor did the prices of other things fluctuate in a corresponding ratio. This fact can be easily

¹ 17 Bank. Mag., p. 492.

² Ibid., p. 590.

tested, by comparing the rise and fall in the prices of things, including that of gold, with the existing or paper standard.¹ The extent of these fluctuations depended on many things.

¹ In his second report as comptroller of the currency, Mr. McCulloch said: "In January, 1862, gold in New York was at a premium of one and one-half per cent. It soon fell to one, from which it rose, on the 10th of October, to thirty-seven, and closed on the 31st of December at thirty-four. On the 24th of February, 1863, it had advanced to seventy-two and one-half, but on the 26th of March (favorable news having been received from the Southwest) it went down to forty and one-half; but in twelve days, on the receipt of less favorable intelligence from that quarter, it went up to fifty-nine and one-half. A few days, upon the report of the iron-clad attack upon Fort Sumter, it fell to forty-six, and on receipt of the intelligence of the surrender of Port Hudson to twenty-three and one-half. On the 15th of October it rose to fifty-four, but reached no higher point during that year. On the 1st of January, 1864, it opened at fifty-two, went up to eighty-eight on the 14th of April, and fell to sixty-seven on the 19th of the same month. On the passage of the gold-bill, June 22, it rose to one hundred and thirty and fell the next day to one hundred and fifteen. On the 1st of July it was forced up to one hundred and eighty-five, but on the day following (the gold-bill having been repealed) it fell to one hundred and thirty. On the 11th of the same month it went up again to one hundred and eighty-four; on the 15th it fell to one hundred and forty-four, and after various fluctuations dropped, on the 26th of September, to eighty-seven; thus rising, between the 1st of January and the 1st of July, 1864, from fifty-two to one hundred and eighty-five, and falling, between the 1st of July and the 26th of September, from one hundred and eighty-five to eighty-seven. None of these fluctuations were brought about by an increase or decrease of the currency; on the contrary, gold rose the most rapidly when there was no inconsiderable increase of the currency and fell in the face of large additions to it. Nothing can be more conclusive of the incorrectness of the opinion that gold is always the standard of value, and that the high price it has commanded in the United States during the progress of the war is the result of an inflated currency, than this brief statement of its variations in the New-York stock market."—*Comptroller's Report, 1864*. 4

The goods purchased abroad for specie conformed more nearly in their fluctuations with those of gold, than the commodities produced in this country. Too much space would be required to trace these fluctuations here; beside, the inquiry immediately before us is, How far did the action of the government, or that of the banks, affect the price of gold? Some persons maintained that the banks did more than the government to cause the advance. An intelligent Boston merchant, in the middle of November,¹ wrote, that the government issues had merely increased the circulating medium to a certain extent, though not supplying the deficiency caused by the loss of gold as currency. The banks, he further remarked, by increasing their notes and loans, had acted unwisely, because they furnished to speculators the means to purchase gold, and to hold it with the expectation of selling at a higher figure. In December, 1862, there were special deposits of \$10,000,000, to secure loans of this kind. During the entire period of the suspension of specie payments, when gold was bought and sold, and especially for a speculative purpose, the banks aided the speculators by lending them money, secured by a deposit of the gold itself.² The banks were severely condemned for thus aiding the gold speculators; if specie payments had been maintained, gold could not have been put on the anvil of speculation. The evils resulting therefrom were so great, that Congress attempted to prevent speculation in gold

¹ 1862.

² "It is a well-known fact, that soon after the suspension of specie payments, it was common for the officers of banks to loan their credit and irredeemable currency upon gold, deposited with them as security; and that bank officers of the city of New York themselves became speculators in gold, and also urged the same upon their friends through their banks, because it was a safe and certain speculation."—*The Price of Gold and the Presidency*.

and foreign exchange. Contracts were declared unlawful for the purchase of gold coin or bullion, which was to be delivered on a subsequent day, or for paying any sums, either fixed or contingent, in default of the delivery of gold coin or bullion; or to make a contract on other terms than the actual delivery of gold coin or bullion, and the payment in full of the agreed price, on the day of making the same. The same provision was applied to foreign exchange, "to be delivered at any time beyond ten days," subsequent to the making of the contract therefor. All dealers in gold were prohibited from selling it "at any other place, than the ordinary place of business, of either the seller or purchaser," and penalties were to be imposed on all who violated the law.

The secretary of the treasury strongly favored the measure. The continued advance in the price of gold was attributed by him to two causes—the increase of the notes of local banks, and the efforts of speculators. Not many members of Congress believed that gold speculation could be suppressed by law. That these speculations were harmful to the national credit was denied by no one. The belief was general that the speculators were a body of men who cared far more for their personal gain than for their country. Senator Chandler, of Michigan, did not hesitate to say that "these gold gamblers, as a class," were "disloyal men in sympathy with the South," and this opinion was shared by many others. The gold exchange was a swamp wherein human character quickly sank and never recovered. The love of gain was fed by sacrificing the national credit and by encouraging the disloyal. How would an undertaker be regarded who, acquiring his wealth in burying the dead, rejoiced over the sufferings of those around him; yet the gold brokers rejoiced over human

slaughter and national defeat because their gains were thereby increased.¹

Nevertheless, the influence which the gold speculators exerted in the gold market, as well as the local banks, by expanding their issues, was exaggerated. Mr. Chase was faulty in his diagnosis of the cause of the gold speculation. Many causes contributed to heighten the variation. The operations of the stock board were only one cause, and not always the most important. One of the senators, when discussing the gold-bill, stated the causes of the fluctuation so well that his words are worth repeating: "It is the immense business that your citizens are now carrying on, domestic as well as foreign; it is the immense issue of railroad bonds and State bonds; it is the immense amount of bonds which your local corporations throughout the whole extent of the United States are issuing

¹ Mr. McCulloch, Comptroller of the Currency, in his second report, said: "Hostility to the government has been as decidedly manifested in the effort that has been made in the commercial metropolis of the nation to depreciate the currency as it has been by the enemy in the field: and, unfortunately, the effort of sympathizers with the rebellion, and of the agents of the rebellious States to prostrate the national credit, has been strengthened and sustained by thousands in the loyal States whose political fidelity it might be ungenerous to question. Immense interests have been at work all over, and concentrated in New York, to raise the price of coin, and splendid fortunes have been apparently made by their success. . . . Gold has been a favorite article to gamble in. It has been forced up by those tricks and devices that are so well understood at the stock board. . . . The effect of all this has been, not to break down the credit of the government, but to increase enormously the cost of the war and the expense of living; for however small may have been the connection between the price of coin and our domestic products, every rise of gold, no matter by what means effected, has been used as a pretext by holders and speculators for an advance of prices, to the great injury of the government and the sorrow of a large portion of the people."

for the purpose of accomplishing some particular local or general improvement. The whole, in one sense, is a specie of currency, by means of which the business of the country is being conducted.”¹ A financial publication which looked at the fluctuations from a shorter range, said: “The true cause of such changes lies in the large volume of paper money, in enhanced prices of commodities, in extraordinary importations from abroad, and in the inevitable demand for all the gold we can produce to liquidate such importations.”² The speculators were, in truth, less powerful in influencing the price of gold than many believed. Whatever may have been their influence paper money was a far more potent agency in working havoc to the morals of the people and the credit of the nation.

The law was enacted on the 17th of June³ and lived only fifteen days. Born in great doubt, its life, though extremely short, was long enough to cause no little commotion and harm. While no one was very hopeful of extirpating or even lessening speculation in gold by legal process, except, perhaps, the secretary of the treasury and Senator Lane, of Kansas, it was not believed that the law could operate injuriously to any person or interest. Yet its operation was disastrous. Within a week after enacting the law, the price of gold had risen thirty per cent. Had this been the first attempt to check the evil, Congress might have been pardoned; but that body had sought to arrest the rise in the price of gold by authorizing the use of gold certificates, and afterward by granting authority to the secretary of the treasury to sell gold, and neither of these expedients had been successful.

¹ Globe, April 15, 1864, p. 1645.

² 19 Bank. Mag., p. 3.

³ 38 Cong., first session, chap. 127.

Congress might have learned from previous experiments to limit the rates of interest that a commercial law, designed to prohibit what the people are generally determined to do, will not only fail but intensify the existing mischief. No truth is more clearly set forth in the strong pages of Buckle. In the case of the usurer, he is unwilling to lend unless compensated for the danger he incurs when violating the law.¹ The gold Act had the same effect as laws of a similar nature designed to limit the rate of money.

A good financial authority and staunch supporter of the Union remarked, five days after the enactment of the law, "It is one of the most extraordinary and visionary acts of legislation ever passed in this or in any other country. So far from aiding the government in its design to put down speculation among brokers and speculators, it has had, and will continue to have, an entirely different effect. The rate in Wall street immediately advanced to two hundred, two hundred and five, two hundred and ten, and, in fact, to two hundred and twenty-five. This gold Act is only one more instance of the utter uselessness of the attempt on the part of Congress to interfere with the ordinary business transactions of a commercial city. The cause of the rise in gold does not, did not, arise in Wall street. The cause was in the unwise issue of several hundred millions of paper currency at Washington, and in the enormous importations² following this uncalled-for inflation. The

¹ "This compensation can only be made by the borrower, who is obliged to pay what is, in reality, a double interest: one interest for the natural risk on the loan, and another from the extra risk from the law."—*Buckle*.

² "The absorption of gold by the public treasury has aided the object of the speculators. The more thus taken from the market, the less remains

treasury has produced this state of things, not the people." So ineffective was the gold Act to secure the objects desired, and so detrimental to the commercial interests of the country, that a special meeting of the Chamber of Commerce of New York was held on the 22d of June, and a memorial to Congress was prepared, setting forth the evils of the law and asking for its immediate repeal. Congress had enacted the law with great hesitation, the Senate discussing the subject fully; the repeal-bill was quickly passed by both houses. It was said at the time that no measure of the government had produced more surprise or more distrust of the administration than the gold Act. Emanating from the treasury, and urged persistently on Congress by the head of that department, the effects of the measure re-acted on the administration with great force.¹

Not only was gold pitched into the arena of speculation by the suspension of specie payments and the increase of the paper circulation, but the exportation of gold was quickened and enlarged by these events. At the time of suspending specie payments the exchanges were running in favor of this country. The rise in the price of gold and foreign exchange was first induced by considerable orders from the government for foreign war supplies (which could be paid only in gold or foreign bills), and afterward stimulated by the return of large for the wants of commerce; and it is a fair conclusion that the premium upon it will be forced up, just to the extent to which speculators can oblige the public to pay for it, through the merchant, who, to supply the public, imports merchandise and pays duties upon it. It makes but little difference to him what is the rate of gold, so long as the public are willing to pay enough in currency to enable him to buy the gold and realize his profit."—*The Price of Gold and the Presidency.*

¹ 19 Bank. Mag., pp. 3, 4 and 77.

quantities of American stocks belonging to foreign holders who were frightened.¹ These securities were sold at a heavy loss.² This, however, was not the only reason for sending gold abroad. Enormous sums were exported throughout the war to pay for foreign goods. Many persons who were ignorant of the resources of the country, and who had little or no faith in its recuperative power, hastily converted their cash and securities into gold, though paying dearly for the exchange. Others, who possessed surplus capital, invested in exchange on England and the Continent, at rates previously unknown in Wall street.

Whatever may be said concerning the public expediency of inflating and depreciating the currency, this policy coincided with the interests of the sellers of land and all kinds of merchandise, because their tide of profits consequently rose higher. No one, perhaps, saw this effect more clearly than Mr. Morrill. "It is most unfortunate that our currency is subject to so great fluctuations, as the tendency is to draw even solid men into the arena of speculators, where they may invest legal tenders in stocks or other property with a view to a rise. This makes it for the interest of all property

¹ "The markets of Europe have, for years, been besieged for the purchase of American State bonds, railroad shares and bonds, city and other corporate bonds. These efforts were successful to an amount variously estimated at two hundred to three hundred millions of dollars. Upon the first revulsion of the market at home, these securities have been returned to Wall street for conversion into gold or exchange on Europe, even at a loss of twenty, or thirty, or forty per cent. These orders, to the extent of fifty or one hundred millions of dollars, have been executed during the current year, and the continual high price of gold and of sterling bills are partly the results."—Money market, Jan. No. *Bank. Mag.*, 1863. See Goschen's *Foreign Exchanges*, p. 48, 11th ed.

² 17 *Bank. Mag.*, pp. 491, 587.

holders, and especially large holders of merchandise, to depress the value of legal tenders. . . . This speculative fever enables all holders of merchandise, whether manufacturers or merchants, to realize larger prices and larger profits than they could otherwise do. With the idea that merchandise is sure to rise, they advance prices and realize gains in advance.”¹ Prices rose, therefore, not only as a direct consequence of issuing and circulating more money, but from the harmonious interest and action of the government and sellers, the former diluting the currency to quicken the sale of bonds, the sellers raising prices to get more profits.

One of the effects of issuing legal-tender notes was the legal discharge of indebtedness without rendering a fair return to the creditor. It has been maintained that this was one of the greatest evils wrought by the Act. The paper dollars given in legal discharge of debts were worth much less than the specie dollars which debtors had received. This is unquestionably true, yet were not many creditors paid in consequence of enacting the legal-tender law who would not have been, had payment in specie been required? By inflating prices it was easier for debtors to discharge their obligations.

¹Cong. Globe, June 2, 1864. “Soon after issuing legal tenders there began to be a small premium on gold. In June it had advanced to two and one-half per cent, and from that time rose rapidly. The government continued to issue greenbacks to meet the pressing exigencies of the nation; the banks issued their notes to increase their dividends, and between them both, on the first day of December, 1862, they had carried the premium up to thirty-three and one-half per cent. This was an alarming state of things. All who could appreciate the condition of the currency felt it to be so. An important crisis had arrived, and it was as certain as anything could be, that the financial policy of the government must be changed, or national insolvency would ultimately be the consequence.”—Amasa Walker, Jan., 1865, 52 HUNT’S *Mer. Mag.*, p. 24.

If a farmer sold his wheat for one dollar and a half per bushel, instead of one dollar, the price before the war, he would get as much for one hundred bushels in 1864 as he did for one hundred and fifty in ante-war days. If the former price was just sufficient to enable him to pay his ordinary expenditures, the advance enabled him to pay his debts. Thousands of debts were discharged which had been running for years, not because debtors were content with their condition, but because they could not improve it. Though great injustice was perpetrated in many cases, in a far greater number creditors were paid who would not have been if prices had not advanced. Governments do not hesitate to pass bankruptcy laws whereby debtors are discharged from their obligations without paying the full amount, and sometimes without paying anything; surely the loss which creditors sustained in consequence of enacting the legal-tender laws was much less proportionally than that of the creditors whose obligations were extinguished by the subsequent national bankrupt-law. We think the facts sustain the deduction, that while many creditors suffered from the operation of the legal-tender law, a much larger number rejoiced in receiving money which had long before been charged to the profit and loss account.

If the legal-tender law were advantageous to this class of debtors, it was not to subsequent ones. The government especially was a heavy loser by the advance in prices. A part of the advance was caused by the enormous demands of the government. War is an extremely wasteful business, and vast quantities of the commodities usually produced were demanded beside others, more especially arms and other munitions of war. Said a thoughtful writer, in 1862, "Before we

blame the banks or the government for all the derangement of the currency, let us ask ourselves whether, if the government spent every day one and a quarter millions in gold coin, it would not cause a great inflation in all values." The writer maintained, therefore, that much of our financial derangement was the result of the war, in distributing large sums among us, and not the result of misdoing. If specie payments had been maintained, doubtless a large advance in prices would have occurred, and the public debt would have been correspondingly increased. But prices also rose in consequence of the enormous increase of the paper circulation. Both causes acted immediately and powerfully to enhance them. Had specie payments been maintained, or had the quantity of the paper circulation been less, the public debt would not have been so large. Suspension and inflation contributed to increase the public burden of indebtedness, the weight of which more than one generation will know and feel. Private debtors, too, suffered in the same manner as the government. Their borrowed money had less purchasing power than before the inflation of prices. The interest account was heavier, the rate, moreover, was often higher, and when the principal was finally paid, after prices had shrunk back perhaps to the old figures, then the borrower comprehended the true cost of an inflated paper money. At first, it seemed a very cheap way to get more money, to make paper and print certain matters thereon, and when a farmer, for example, borrowed it to pay for his farm, and sold his wheat at a dollar more per bushel than he did before the era of legal-tender notes, he verily thought that paper money was a blessing. When, however, the price of wheat declined and the gap of debt could not be so easily filled, he learned the cost of taking greenbacks

instead of specie when making his loan. Had he borrowed specie, the amount required would have been much smaller, all prices would have been correspondingly lower, consequently he could have finally discharged his debt with much greater ease. This truth became sadly clear in the light of the thousands of bankruptcies which occurred in the subsequent era of falling prices.¹

Another effect of inflating the monetary circulation, it has been maintained, was to stimulate subscriptions to the national bonds. Did the issue of government paper money, however, have such a magical effect in this regard as so many imagine? Of course, all the notes issued discharged an equivalent amount of public debt. When received by the government-creditors—soldiers, employees, contractors—they were soon exchanged for other things. Many creditors bought government-bonds with them. Suppose the government, instead of issuing notes to its creditors, had issued bonds to them in discharge of their indebtedness, would the notes have been necessary in that event in order to stimulate subscriptions; surely not. But the government simply issued promises to pay to all creditors, and afterward exchanged one kind of promises for another. In truth, creditors took various kinds of government obligations for their claims, demand treasury-notes that were not legal tender, legal-tender notes, notes running from a few weeks to three years, bonds, certificates of

¹ Samuel Hooper, one of the most influential and intelligent advocates of the legal-tender legislation, remarked, in a speech in the House, in February 21, 1866, "The losses and the inconvenience caused by the depreciation of the money of the country in consequence of the addition of the legal-tender notes to the circulation, were certainly greater than was expected by those who initiated and advocated the measure; partly because the war assumed a greater magnitude and a longer duration than was then expected."

indebtedness ; in short, whatever the government gave. Those bearing no interest were often converted into bonds, because these were considered the most desirable investment of the time. What stimulated the purchase of bonds was not the issue of more paper money, but the employment of more men at higher wages, the purchase of enormous quantities of goods by the government at exceedingly profitable prices to the sellers, whereby they suddenly became the possessors of large means to invest in new ways.

One of the principles which regulate the quantity of money needed by a country is the rapidity of its circulation, and a far more important one in our time is, how far can checks and bills of exchange be used as a substitute. Money is always circulated more slowly by the government than by individuals, yet it could have obtained all that was needed without diluting it. When profits in business increased,—in other words, when the people recovered from the depression which existed at the outbreak of the war, and made money,—they had a surplus for fresh investment and their subsequent large and speedy profits were the consequence mainly of the enormous demands by the government. During the year 1879, the heavy cloud of depression which had hung over the country for six years passed away, and the people once more began to add to their wealth. Business everywhere revived, thousands of spindles, long silent, gave forth a cheery sound, and many a place was relighted with furnace-flame. The farmer, too, rejoiced over splendid crops, and a better market. The price of almost everything advanced, the record daily made in account books was speedily changed, profits were entered instead of losses, and large sums were accumulated. New railroads were planned, and other colossal enterprises were launched in which this

newly-created wealth was invested. That golden wave of prosperity, which rolled over the country like the outburst of the earth on the return of the sun, cannot be traced to a new monetary supply, for there was none. The people had money to invest because they were making money. The money loaned to the government during the first year of the war was not drawn from immediate profits ; much of it was idle capital, like that in the banks at the present time. But the amount was not very great. After a short period every man was busily and profitably engaged. Fortunes increased rapidly, and from these sources the treasury was replenished.

The existence of so much paper money, or the fear of its depreciation, stimulated its circulation. Every addition to the quantity increased the use of it, and thereby aggravated the evil of its presence. In April, 1864, a Republican member of the Committee of Ways and Means touched on this subject in a speech in the House, in which he said : " The common impulse has been to get rid of the currency of the country. Thus, every man and woman in the nation seeks to own something that cannot perish. The manufacturer buys and fills his factory with the raw material, the merchant his warerooms with the merchandise with which he is familiar, the capitalist his trunk with bonds, mortgages, and stocks ; while the speculator, watching the advancing tendency of all kinds of securities, uses his credit to its utmost tension, trades to the extent of millions in local stocks, securities and commodities of the country."

The effect of issuing government-notes on importations is not easily determined. " A redundant currency," wrote Amasa Walker, in 1875, " always increases importations, especially of luxuries, and causes a demand for gold for

exportation. The statistics of the national treasury show indisputably that importations are governed by the currency. The larger the volume of the currency, the greater the amount of foreign imports. Nothing is more certain than the operation of this law."¹ On former occasions, when the issues of paper money were expanded, it was redeemable in gold. As specie payments were now suspended, the premium on the gold bought to pay for the goods imported, and the duties thereon, were added to the price which importers asked for them. Had all prices followed the depreciation of paper money measured by the gold standard, we suppose that importations would not have been affected by the government issues. Instead of following the depreciation thus measured, prices greatly varied from it. So far as the advance in prices exceeded the premium on gold, one might reason that the tendency was to check importations; in truth, money had become so abundant that the demand for the products of the Old World, especially those of luxury, was unparalleled.²

The effect of issuing this flood of paper money on labor has been the theme of many an investigation. Wages did not rise in harmony with other things. One reason was, because only an actual demand for labor exists, while for other commodities an actual is often supplemented by a speculative demand. During the period of inflation and adjustment to a higher level of prices, wages were the slowest of any important commodity to advance. Unquestionably laborers were among the heaviest sufferers from expanding the paper circulation.³

The expediency of paying interest in gold was often ques-

¹ 52 Hunt's Mer. Mag., p. 26.

² See page 446.

³ See Investigation relative to the Causes of the General Depression in Labor, House Mis. Doc., No. 29, 45 Cong., third session.

tioned. One class stoutly maintained that such a policy was essential to the public credit. Mr. Sherman remarked, in a Senate speech, in 1870, "If the interest on our bonds had not been payable in coin during the war, it is probable that in the terrible depreciation of 1864 our paper money would have disappeared, and the people would have resorted again to barter in gold, in disregard of our legal-tender currency."¹ On the other hand, it was contended² that by employing gold for this purpose its value was enhanced. "Permit the importers to pay the government in its own notes, and not only will gold fall in value for lack of a market, but the value of the legal-tender notes will be enhanced from enlarging their field of employment."

The last effect of inflating the circulation to be noticed here was to stimulate speculation. To Pope's benediction—

"Blest paper credit! Last and best supply,
To lend corruption lighter wings to fly,"

speculators could heartily respond even though a lighter wing was given to corruption. They were as hopefully excited by the event, though springing from a national calamity, as were the oligarchs of Athens "who traded on the agony of their country." Speculation was stimulated in

¹ Mr. Sherman continued: "This simple provision for the collection of duties on imports in gold, and the payment of interest in coin, was the only conservative security of our paper system. Without that, the paper balloon might have exploded, as it did in the Revolutionary war in the time of our fathers, as it did in the French revolution by the issue of assignats and moudats, and as it did in the Southern Confederacy, where it ended in the entire destruction of the public credit of the Confederacy, at one time higher in the money market of Great Britain than our own."—*Speeches*, p. 241.

² See Erskine Hazard on the Currency, p. 3.

part, by the sudden increase of wealth, and especially by the sudden creation of a class of rich men, government contractors, and the like. The speculation which broke out in gold, and raged with stupendous fury, spread like a prairie fire to stocks and other things. The rapid fortunes that were made by the bold pioneers in speculation, "stimulated the cupidity of the whole community." Many a commercial reputation, which had remained unyielding amid the fiery blasts of numberless temptations, was disintegrated by this subtle and malign power. Said Mr. Stebbins, of New York, in the lower House of Congress, in the spring of 1864, "But few men are to-day disinterested spectators of this wonderful mania. Prices have steadily and rapidly advanced for more than two and a half years. It is impossible for this state of things to continue without ruin to the people, and destruction to the government. This fact is so transparent, that it needs no argument to prove it." Prices afterward passed through a long period of depression, and then recovered, and are falling for a second time; but the fever of speculation, which was first thoroughly kindled by the manipulation of gold after the suspension of specie payments, and which was quickly intensified by the unsettling of prices through the introduction and common use of a distrusted monetary instrument, has been raging with increasing fury, and is the most serious foe with which honest legitimate business has to contend.¹ Of the evil legacies left by the war, this is one of

¹ In 1865, when Mr. McCulloch was at the head of the treasury department, he delivered a speech at Fort Wayne, Indiana, in which he said: "There are other objections to the present inflation. It is, I fear, corrupting the public morals. It is converting the business of the country into gambling, and seriously diminishing the labor of the country. This is always the effect of excessive circulation. The kind of gambling which it

the worst, and shows no sign of permanent exhaustion. There have been short lulls, occasioned usually by lack of means, but the desire to accumulate a fortune in a day, greatly quickened, if not originating, in the early war speculations, has not yet been satisfied. On the other hand, that desire, so destructive to morality, to good government, to social order, to the ordinary and rightful methods of business, is burning more fiercely than ever. Enthralled like the legally defined gambler, every loss sustained by the speculator, instead of producing a sobering effect, excites him to try again, in order to retrieve himself, and thus the game is continued with increasing desperation, and with losing hope of ever stopping, until overtaken by bankruptcy or the grave.

produces is not confined to the stock and produce boards, where the very terms which are used by the operators indicate the nature of the transactions, but it is spreading through our town and into the rural districts. Men are apparently getting rich, while morality languishes and the productive industry of the country is being diminished. Good morals in business, and sober, persevering industry, if not at a discount, are considered too old fogyish for the present times."

CHAPTER IX.

TAXATION AND GROWTH OF THE PUBLIC DEBT.

JULY 1, 1861—JUNE 30, 1862.

MR. CHASE'S report to Congress in July, 1861, contained the remark, that "to maintain a sound financial condition a system of taxation was required that would produce a sufficient revenue to pay all the ordinary expenses of the government in time of peace, the entire interest on the public debt, beside creating a gradually increasing fund for the redemption of the principal." It was not important, he said, two years afterward, "so long as it seemed highly probable that the war would be speedily brought to a successful close, that the revenue should largely exceed the ordinary expenditures and the interest. On the contrary, it seemed wisest to obtain the means for nearly the whole of the extraordinary expenditures by loans, and thus avoid the necessity of any considerable increase of burdens of the people at a time when the sudden outbreak of flagitious rebellion had deranged their business and temporarily diminished their incomes. The financial administration of the first fiscal year was conducted upon these ideas." Congress, regarding the future with equal hope, at the special session in 1861, provided for raising by loan all the money which the secretary deemed needful to carry on the war. Of course, it was impossible to make an accurate estimate of the expenditures, for the future could not be foretold.

The monthly receipts for 1861 disappointed expectations, and the opinion soon spread that a revision of the tax laws would be necessary for the purpose of increasing the revenue. The secretary had estimated that \$57,000,000 would accrue from customs during the fiscal year 1862. This estimate was based on the modification of the tariff law in the manner recommended in his first annual report. Congress did not go so far as he desired in increasing the duties on tea, coffee, and sugar, while goods on ship-board and in ware-houses were exempted. "However warranted by considerations of general policy," remarked Mr. Chase, in his report in 1862, "the action of Congress was certainly disadvantageous to the revenue." He added, however, that a more efficient cause of reducing receipts was the changed circumstances of the country, which were unfavorable to foreign commerce. The receipts for the first quarter were \$7,198,602.55, and for the second, \$8,309,066.47. The secretary, therefore, reduced his estimate of receipts from this source for the year to \$32,198,602.55.

The direct tax, too, was a disappointing measure. Of the \$20,000,000, \$14,846,018 were apportioned among the loyal States, and the remainder, \$5,153,982, among those in rebellion. The Act provided that each State and territory, and the District of Columbia, might pay its own quota, if notice of this intention were given before the following February. A deduction of fifteen per cent on the quota was made to the States which collected and paid the tax.¹ All the States, territories, and the District of Columbia, formally assumed the

¹ Nothing was gained by this deduction. The effect was to put the amount to be collected at a higher figure. See Mr. Morrill's speech in the House, March 12, 1862.

payment of the tax, except Delaware, the territory of Colorado, and the eleven rebellious States. The government proceeded to collect the tax in Delaware and Colorado through internal revenue officers, and in the rebellious States through direct tax commissioners. At the time of enacting the law the government was indebted to each of the States for money advanced to pay for enlisting and equipping soldiers. This indebtedness was applied toward the sums apportioned to each State.

The States which owed money to the government paid it; the next year Congress suspended the operation of the law until April, 1865. In 1864, however, this form of taxation was extinguished, except in collecting what was yet due to the government.¹ The United-States direct tax commissioners completed the assessment rolls of the insurrectionary States, levied on lands, and sold them, and collected about one-half of the apportionment. These proceedings continued for many years, and have, in truth, even yet hardly ended. Sums due from the government, arising from the sale of land in some of the States in which they had a pecuniary interest, were applied on the tax. No revenue consequently, or only a very small sum, and hardly worth mentioning, came into the treasury from the direct tax.² The income tax was not to be assessed until the beginning of 1862.

The measures devised at the special session for increasing the national income by taxation, were, therefore, failures.

¹ The States included the amount with the other taxes laid on the towns and cities, and collected the same without any appreciable expense. See Amasa Walker, 50 *Hunt's Mer. Mag.*, p. 104.

² Report to Com. of Inter. Revenue, July 14, 1870, Ex. Doc., No. 312, 41 Cong., second session; California Case, 5 Comp. Lawrence's Decisions, p. 333; Direct Tax Case, 3 *Ibid.*, p. 331; 4 *Ibid.*, p. 354.

The revenue from imports fell off; internal taxation yielded nothing. The nation had lived on borrowed money.

When Congress convened in December, many believed, but not all, that no time should be lost in introducing a more productive system of taxation. The expenditures were rapidly increasing, more than half a million soldiers were in the field, and the estimates for the fiscal year were increased to \$543,406,422.06. Clearly, the time had come for drawing more deeply from the well of taxation. Evident as this was to many, the secretary, in his annual report, handled the subject very gingerly. After wisely declaring, that "the first great object of reflection and endeavor should be the reduction of expenditure within the narrowest limits," and that "the property of rebels should be made to pay, in part at least, the cost of the rebellion," he restated the principles by which he conceived the proportion of taxation and loans, which were the sources of income, should be determined. He said that reflection had only confirmed his opinion, that adequate provision by taxation for ordinary expenditures, for prompt payment of interest on the public debt, and for the gradual extinction of the principal, was indispensable to a sound system of finance. The idea of perpetual debt was not of American nativity, and should not be naturalized. "If, at any time, the exacting emergencies of war constrain to temporary departure from the principle of adequate taxation, the first moments of returning tranquillity should be devoted to its re-establishment in full supremacy over the financial administration of affairs." What use did he make of these principles in his recommendations to Congress? It was "now even more apparent" than in July that duties would not furnish a fruitful source of revenue. Some modification

of the existing tariff might be judiciously made, both to increase the revenue, and sustain American labor, skill, and trade. Though believing that the income from this source would increase during the last half of the fiscal year, he said it became the duty of Congress to direct its attention to revenue from other sources.

What, then, were the secretary's recommendations with respect to direct and internal taxation? In his judgment, it would be necessary to increase the direct tax, so as to produce from the loyal States a revenue of at least \$20,000,000, and to lay such duties on stills and distilled liquors, on tobacco, on bank-notes, on carriages, on legacies, on paper evidences of debt, and instruments for conveyance of property and similar subjects of taxation, as would produce as much more. The existing provision for an income tax, just in principle because requiring "largest contributors from largest means," might "possibly, and if somewhat modified," produce \$10,000,000. The secretary had screwed himself up to the point of recommending the raising of \$50,000,000 by direct and internal taxation.

"The secretary is aware that the sum is large ; but seeing, as he does, no probability that the revenue from ordinary sources will exceed forty millions of dollars during the current year, and knowing, as he does, that to meet even economized disbursements, and pay the gradual reduction of its principal, the appropriation of ninety millions of dollars will be necessary, he feels that he must not shrink from a plain statement of the actual necessities of the situation."

And this was as far as the secretary dared go ! Did ever a financier present a more luminous exposition of the road to ruin ! "It must be seen at a glance," he remarked, "that the

amount to be derived from taxation forms but a small portion of the sums required for the expenses of the war." "For the rest," he added, "the reliance must be placed on loans." If Mr. Gladstone erred in trying to put the entire burden of the Crimean war on the English people at once, Mr. Chase erred in delaying to put on as much as they were willing or desirous to bear. Why did he not recommend going deeper into the pockets of the people? Could they not afford to pay more? It required no argument from him to show that the people could bear such a burden, although he presented one. He utterly misconceived their temper. It is said that the bankers and other leading men in New York sought to dissuade him from recommending larger taxation. Horace Greeley was among the number. They feared that the war would become unpopular if heavy taxation were imposed. The secretary was moved by this fear, and also by the expectation that the war would end in 1862.

Congress gauged the feelings of the people more perfectly. On the 11th of January, at a meeting of bank delegates, held in Washington, at which the Finance Committee of the Senate and the Committee of Ways and Means of the House were present, they recommended a tax-bill to raise \$125,000,000, in addition to the duties on imports. A joint resolution was introduced into the House on the 15th of January, declaring the intention of Congress to levy such an internal tax as would, with the duties on imports, raise a yearly revenue of \$150,000,000. The resolution passed the House with only five dissenting votes. How different was their action from the timid recommendation of the secretary! This pledge carried the six-per-cent bonds of the government from ninety cents on the dollar to one hundred and seven. Were the money

kings of New-York City afraid of taxation for themselves and for the country? The members of the chamber of commerce of that city have always been influential citizens, and in this trying exigency they did not hesitate to act. The secretary of the treasury certainly could not have been skaken by consulting with them. On the 24th of April, the chamber memorialized Congress, and declared "that the masses of the people are ready and desirous to contribute their quota to the ordinary and extraordinary revenues of the country, so that the burden of expenditure may be equitably distributed between the present generation and that which shall immediately succeed us." The chamber further declared that "the current expenditures of the government during the present and coming fiscal years demand an annual public revenue of at least \$250,000,000, and that probably no less sum will be adequate to the prompt payment of such ordinary annual expenditures, the payment of the interest on the public debt, the establishment of a sinking fund, and finally,—the restoration of the public credit to such a point or condition as will enable the treasury to negotiate on favorable terms the requisite loans of the present and future years."

What a gap between these figures and Mr. Chase's \$90,000,000! If he were "aware" that internal taxation to the amount of \$50,000,000 was "large," what did he think of the memorial of the patriotic and far-sighted business men of New York? They prayed Congress to frame a revenue system that would yield \$264,000,000, of which sum, \$50,000,000 should be paid on imports, and the remainder be levied on the sales of goods¹ and other property, excises, and a direct tax. Had Mr. Chase grappled with the question of taxation, as the New-

¹ See remarks on the plan, 16 Bank. Mag., p. 917.

York Chamber of Commerce grappled with it, and prepared bills embodying his views for introduction into Congress as soon as that body convened, a vast sum would have been saved to the country. After the adjournment of the special session in August, he did nothing, and left the members of Congress to grope their way along this intricate subject as best they could. This was the question of all questions on which they needed information to act intelligently, and after the joint resolution above mentioned was passed, months elapsed before a bill could be matured providing for increased taxation. The Ways and Means Committee lost no time in considering the subject, but it was vast, and much labor was required to collect information, and hammer a bill into proper form. The secretary could have done much of this work for the committee, and forwarded legislation by months, thus getting the measure earlier into operation, and swelling the national revenue, and what, at that time, was far more important, improving the public credit. Thomas Jefferson has recorded that "it is a wise rule, and should be fundamental in a government disposed to cherish its credit, and at the same time to restrain the use of it within the limits of its faculties, never to borrow a dollar without laying a tax in the same instant for paying the interest annually, and the principal within a given term, and to consider that tax as pledged to the creditors on the public faith." This salutary principle Secretary Chase did not fully comprehend, or hesitated to apply. We can find no excuse for his halting tax-recommendations, and for his neglect to obtain the needful information, and prepare the necessary bills. The only reason that can be given for the secretary's action is, he did not comprehend the importance of taxing heavily and with the utmost promptitude,

nor did he, at that time, believe the war would continue longer than a few months, participating in the almost universal belief, says his biographer, that with the preparations which the government was making, "the war might be ended in a single year."¹ This opinion did not fade out until McClellan's miserable peninsular campaign failure.

Nine months had already gone and not much revenue had been drawn from internal sources. Every consideration of public policy required that these should be effectually opened without longer delay.

The direct tax law, enacted at the special session in 1861, provided for the appointment of officers to execute it. The chief officer was to be called a commissioner of taxes, and,

¹ Schuckers, p. 332. Mr. Schuckers makes the following plea for the secretary: "If the extreme prostration of the business interests of the country be borne in mind, and the important fact that the largest sum—exclusive of loans—ever collected from the people in any one year, and that a year of unusual apparent prosperity (1856), was but a fraction over seventy-four millions (\$74,056,699.24), it will be conceded that Mr. Chase recommended the highest safe limit. It is important to remember also, that the income of the government from all the sources of permanent revenue, during the four fiscal years of Mr. Buchanan's administration, was but a fraction over \$225,000,000. In 1857, it had been \$68,965,312; in 1858, \$46,655,365; in 1859, \$53,486,465; and in 1860, it was \$56,054,599. The income from the same sources during the fiscal year ending June 30, 1861—eight months of which were passed under the administration of Mr. Buchanan, and four under that of Mr. Lincoln, was but \$41,476,299. The income from loans and treasury-notes during the years 1858, 1859, 1860, and 1861, was \$114,686,900, of which \$41,895,300 was derived during the fiscal year ending June 30, 1861. The income from customs during the last quarter of 1861 was but \$5,515,000. From this brief statement, it is apparent that if the government had been dependent for support upon income from taxes, it would have been in imminent danger of a collapse, even in a period of unhealthy peace."

under the direction of the secretary of the treasury, was to have the general superintendence of the officers and the collection of the taxes. No appointment, however, was made, for the loyal States having assumed to pay the tax, it was not necessary to put any machinery into motion to collect it. The law, though, was of some worth to the Committee of Ways and Means in forming a bill to collect a larger revenue, in accordance with the spirit of the joint resolution which had been passed so promptly by both houses.

Mr. Morrill, of Vermont, was chairman of the sub-committee, to whom were entrusted the preparation of a bill. They labored faithfully on the subject and reported on the 3d of March. A week having been given for printing and studying the bill, on the 12th he opened the discussion by showing what amount ought to be raised by internal taxation and the principle on which the measure was based. At the extra session \$250,000,000 in bonds and treasury-notes had been authorized, and at the present session \$610,000,000 more securities "under all forms." With the previous debt the nation would owe \$950,000,000. If the war continued through the year 1863, after deducting all receipts into the treasury, the public debt would be "nine or ten hundred millions of dollars. The interest on the debt would be \$60,000,000 or more, the ordinary expenses would not, under any circumstances, be a smaller figure, and the military establishment would probably require an additional \$25,000,000 for several years after the close of the war. We must pay," he said, "all our ordinary expenses, the interest on all public debt, and, over and above this, have a respectable sinking fund to retire some portion of the public debt annually, and this over-plus must be sufficient to guard

against all contingencies." The financial measures in contemplation, he sought to show, would yield even more than the above demands on the treasury.

The committee therefore had based their bill on sound principles. In preparing it they had gained information "of considerable value" from correspondence, while gentlemen interested in many branches of industry had been before the committee, and given facts touching nearly the whole range of subjects covered by the bill. Mr. Morrill said that in few instances had any of these gentlemen asked to be exonerated or exempted from their proper share in sustaining the government. "It is true," he remarked, "that some were willing, perhaps, to see pilgrims by their side bearing a larger pack than they felt to be wise or prudent for their own backs, but all were willing, and even anxious, to contribute what appeared to them to be just and reasonable; and some were willing to contribute much more on the ground that, if the duty should be a light one, they could make no advance on the consumer, whereas if it should be heavy, they would at once be furnished with an argument to put up prices upon stocks on hand, as well as on all amounts hereafter produced.

"There is, perhaps," he added, "an eagerness in some quarters for high and extravagant duties upon some particular article, which might be cited as conspicuous evidence of patriotism, if it could be certainly known that the parties had not already provided an ark for a wet day, and housed their stock beyond the reach, as they suppose, of any duty or tax. Seeking to avoid all extremes, the committee thought best to propose duties on a large number of objects, rather than confine them to a narrow field, and thereby be forced to make them excessive in amount, and for that reason entirely

unreliable. If the rates could be thereafter increased in any instance to the benefit of the revenue, and without inflicting any injury upon any quarter of the country, this would soon be ascertained." This was quite contrary to the doctrine of the New-York Chamber of Commerce, and Boston Board of Trade.

The duties proposed by the bill rested heavily on spirits and malt liquors—about one hundred per cent on raw whiskey, fifty per cent on rum, and twenty-five per cent on ale or beer. These duties were far below the point at which even some prominent distillers thought they might be safely carried, and yet largely above the point indicated by the majority of those engaged in the business. The men who were supposed to have stocks on hand, and those who would destroy the traffic regardless of revenue, for once agreed in the propriety of an exorbitant tax. Alcohol used in the arts and manufactures was to be taxed in proportion to its strength, and on whiskey exported a drawback was to be given for the full amount of the duty.

Luxuries were to be another source of revenue. The bill embraced merchants, traders, bankers, brokers, auctioneers, distillers, brewers, peddlers, manufacturers, theatres, hotels and taverns, professional men, and other classes. The amount of revenue from this source was estimated at \$3,000,000. Though not generally required in this country, licenses in England were regarded among the least objectionable modes of taxation. The strongest objection was the novelty of imposing on any lawful occupation a license from the national authority for its exercise. This objection, said Mr. Morrill, "nearly vanishes, when it is considered that a license is not so much a permit for carrying on business, as a recognition of the trade,

and a designation of the premises in which the business is to be conducted." It was also a shield against unauthorized and irregular competition.

The duty proposed on unmanufactured tobacco was three cents per pound, and no drawback on that exported. A duty was proposed on illuminating agents. "Gas, when properly made, from its brilliancy, absence of odor, cheapness, and convenience, will always remain the paragon of lights; and those who turn on and off its splendors at will, can generally afford to pay, and do pay, very remunerative prices for its use. Here is an instance," added Mr. Morrill, "where either party is presumed to be able to meet the duty without hardship."

A duty of three per cent was proposed on manufactures, with some exceptions. These would not come out of the manufacturer, though a depression or glut of the market would make him suffer loss. The cost of the manufactures to the amount of the duty would be borne by the consumer, "as much as if added to the cost of the labor or the raw material." The drawback allowed would preserve the foreign market to the American manufacturer. "It was not thought best to propose duties on raw materials generally, but to wait until all the cost, in the finished state at the time of sale, was added to the production, and thus assess the duty on the largest values." From this source it was expected that \$50,000,000 of revenue would be derived. "But it will be indispensable for us to revise the tariff on foreign imports, so far as it may be seriously disturbed by any internal duties,—on some things the tax proposed is more than the present tariff,—and to make proper reparation; otherwise, we shall have destroyed the goose that lays the golden eggs. From such a revision, including some articles that hitherto it has not been considered sound

policy to take from the free list, and lower schedules of the tariff, it is expected also to increase the revenues several millions of dollars. If we bleed manufacturers we must see to it that a proper tonic is administered at the same time. There are many articles, however, where the tariff is now high enough for revenue or protection, which will receive no advance."

Railroads also were subjected to taxation. "To adjust an equitable tax" on them was one of the difficult problems for the committee to solve. The committee proposed a duty of three per cent on the season or commutation tickets, and on the coupons or interest paid on bonds, and a duty of two mills on passengers, other than season-ticket passengers, for each mile traveled. By adopting such a plan, the tax was apportioned somewhat between the owners of the road, whether foreign or domestic, and whether represented in the form of stock or debt. Railroads could add the duties to their rates of fare if they chose to do so. Moreover, to deal justly by them and the people, the duty was extended to steamboats and other vessels.

Stamp duties on legal and commercial documents were also proposed. England once tried the experiment of collecting such a duty of the American colonists, but did not succeed. "Practically," Mr. Morrill said, such duties were "as unobjectionable" as any which could be collected. A large revenue was expected from this source. Advertisements were also to be taxed, the committee believing that the burden would fall on the person for whose benefit the advertisement was published.

Last, the committee proposed to retain the income duty, which was a feature in the excise bill passed at the previous

session. The amount of the exemption was changed from \$800 to \$600. This duty, said Mr. Morrill, "is one, perhaps, of the least defensible that, on the whole, the committee concluded to retain or report." The objection to it was that nearly all persons would be already taxed on all sources of income. This, therefore, would be a double tax. There were few persons in the country who had any fixed incomes for a term of years. The dividends of banks, the interest on railroad bonds, and United States official salaries, including members of Congress, had been elsewhere subjected to duties. "The income tax is an inquisitorial one at best; but, looking at the considerable class of State officers, and the many thousands who are employed on a fixed salary, most of whom would not contribute a penny unless called upon through this tax, it has been thought best not to wholly abandon it. Ought not men, too, with large incomes to pay more in proportion to what they have than those with limited means, who live by the work of their own hands, or that of their families?"

Such are the outlines of one of the most important bills considered by Congress during the war. With the exception of the legal-tender bill, there was no other which called forth such prolonged and serious discussion. Ten thousand extra copies of the report were printed and distributed, and opinions and facts were solicited from every quarter.

On the next day, after Mr. Morrill's speech, amendments were offered and the remainder of the discussion was on these. The debate continued almost daily until the 8th of April, when the final vote was taken. Mr. Stevens made a short speech of a general nature at the close. He remarked, among other things, that the committee were, by the Canadian reciprocity treaty, obliged to omit many articles which, with

a light tax, would have produced a large revenue. The bill passed by a vote of one hundred and twenty-six to fifteen.

On the 25th of May the debate began in the Senate by sections. The House amendments were so numerous that the Finance Committee greatly hesitated to report the bill with them for the consideration of the Senate. Mr. Simmons, of Rhode Island, wished to substitute another bill which he had prepared, and Mr. McDougal, of California, had a second substitute to offer. The debate was continued almost daily until the 6th of June, when Mr. Fessenden, in the only formal speech during the progress of the bill, closed the long debate. He gave an account of the financial condition of the government, considered its future needs, the desire of the people to be taxed, the things that were to be taxed, the principal changes in the bill since it had come from the House, and the machinery by which it was to be executed. The bill provided for the appointment of a collector in each district, who was to receive not over \$10,000 a year for his services, and who was to appoint his deputies and pay them. An assessor was to be appointed for each district, who, in turn, was to appoint his assistants. Collectors were to be appointed for each district. Each set of officers would be a check on the other, the Senate adopting the system then generally existing among the States. The bill passed the Senate by a vote of thirty-seven to one, and was returned to the House laden with three hundred and fifteen amendments. As the House non-concurred in the Senate amendments, they were considered by a committee of conference, who agreed on a report.

One of the more important amendments changed the pay of collectors from one to two per cent after the collection of \$100,000 of revenue. Another amendment related

to the taxation of whiskey. A tax of twenty cents a gallon was imposed in lieu of all other taxes. On tobacco the Senate had raised the tax voted by the House. The conference committee agreed to a tax of fifteen cents per pound on tobacco worth more than thirty cents per pound, and a tax of ten cents per pound on tobacco of less valuation. A different tax was laid on snuff and some other articles. Cigars were divided into three grades, worth five, ten, and fifteen dollars per thousand. These were taxed one dollar and a half, two dollars, and three dollars respectively. The gravest point of difference was over the retention of the direct tax, which the Senate had repealed. The conference committee, on the part of the House, refused to consent to the repeal, believing that the landed property would be taxed inadequately, and that an unjust burden would be thrown on the commercial and manufacturing interests. The Western States declared through their representatives that they could not raise the money to pay the tax. One reason for laying the tax was, it reached the property of foreign residents. The committee finally agreed to suspend its collection, except the first, laid in July, 1861, for two years. With respect to the income tax, three per cent was to be collected on all over \$600, and not exceeding \$5000, and five per cent on all incomes exceeding the latter figure. The time for calculating personal income was the 1st of May, 1862, and the tax was to be collected annually.

A drawback was allowed on all articles exported, equal to the internal tax, except that on cotton.¹ Afterward rock oil and other articles were added to the list of exceptions. The cotton manufacturers, however, were relieved of the burden of tax on raw cotton in another way. The tax paid by them on

¹ Drawback Regulations, Ex. Doc., No. 41, 39 Cong., second session.

their goods of three, and subsequently of five per cent, was refunded, beside half a cent a pound on their goods, which was advanced to two cents near the close of the war.

The time fixed in the original bill for the law to become operative was the 1st of July, 1862 ; so much time, however, had been consumed in maturing the measure, that the execution of it could not begin before the 1st of August. The House agreed to the report, one hundred and six voting in favor, and only eleven against it.¹ This was on the 23d of June. More than four months had been spent by the two Houses in considering the bill, and it was one of the most important and far-reaching laws ever enacted by Congress, and justified all the study, investigation, and debate given to it. Many members thought, notwithstanding all that had been said on the subject, that far more time should have been given to the consideration of the measure. This was the case, particularly with the Senate amendments, which were considered only by the conference committee.

Defects in the law were soon apparent. On the 14th of July a joint resolution was passed declaring that the provision relating to stamps should not operate until the 1st of September, and thirteen days later the law was further modified in several particulars, beside vesting the secretary of the treasury with the anomalous authority to fix the dates when many of the provisions should begin to operate. It was not enacted in time to bring revenue into the treasury during the fiscal year of 1862. The duties on tea, coffee, sugar, and molasses, were increased on the 24th of December,² 1861, as recommended by Mr. Chase, and on the 14th of July³

¹ Act, July 1, 37 Cong., second session, chap. 119.

² Act, *Ibid.*, chap. 2.

³ Act, *Ibid.*, chap. 163.

following, another Act was passed, increasing temporarily the duties on sugar, molasses, tobacco, iron and steel, drugs and chemicals—in short, on nearly the entire list of imports previously taxed. An additional tonnage tax of ten per cent was imposed on merchandise produced east of the Cape of Good Hope, when not imported directly from the place of production, but from intermediate ports.¹ These regulations wrought many radical changes. Two reasons existed for raising the duties on imports; one was to secure the home producer from the consequences of internal taxation, and the other to enlarge the revenue. Both reasons were so cogent that the measures encountered no serious opposition.

The receipts from the imports during the last half of the fiscal year 1862 exceeded those of the first half, as the secretary had predicted. For the third quarter, closing with March, they amounted to \$14,618,558, and for the last quarter, \$18,930,170. For the year, they reached \$49,056,397. Trade and industry had improved, and the increase in imports which had now begun was to continue for many years. During the last quarter of that year the direct tax yielded \$1,795,331 to the treasury, while less than a million dollars were received from the sales of land and miscellaneous and incidental sources.

Notwithstanding the smallness of receipts from taxation, the indebtedness for the year had not exceeded the estimate. The July estimate was revised and increased in December, in consequence of enlarging military operations after making the first estimate. The estimated indebtedness stated in the secretary's December report was \$517,372,802, and at the close of the year the actual indebtedness was \$514,211,371.92.

¹ Act, July 14, 37 Cong., second session, chap. 163, sec. 14.

This amount, though, did not include unascertained claims, but only the debt, "the evidences of which," as stated by Mr. Chase, "existed in the treasury upon its books, or in the form of requisitions in favor of creditors or of disbursing officers." The unpaid bills, happily, were not supposed to be much larger than the balance in the treasury, \$13,043,546.

And what was obtained for this vast expenditure? Clothing, provisions, and munitions of war, which were speedily destroyed. Nothing more? Yes, a residue, which cannot be reckoned in terms of wealth. The life and wealth spent in the civil war was to rescue an imperiled country, and which, having become more truly incarnate through the successful sacrifice incurred, is regarded with deeper affection than it was before. Tried by the standard of wealth, the war was an enormous loss; tried by a higher standard, the magnitude of the gain is becoming more apparent as we recede from the event.

CHAPTER X.

TAXATION AND GROWTH OF THE DEBT.

JULY, 1862—SEPTEMBER, 1865.

ALTHOUGH the public debt at the beginning of the fiscal year did not exceed the expectation of Mr. Chase, he frankly declared, in his next annual report, that there was no room for the pleasing hope that the results of that or the following year would "exhibit a similar proportion." On the contrary, the estimate in his former report of the public debt on the 1st of July, 1863, in consequence of the unexpected increase of expenditures, was advanced to \$1,122,297,403. If the war should be continued until the 1st of July, 1864, with undiminished disbursements, the debt would be increased probably to \$1,744,685,586.

Mr. Chase did not shrink in giving as nearly correct estimate as possible of the cost of the war. He was besought in the beginning to make small figures, his advisers fearing that if he told the true story the people would be appalled and lose faith. Not so thought Mr. Chase. Though fearing to tax, he did not fear to tell how much would be required.

The interest on the debt at the beginning of the second fiscal year of the war was not large. The secretary had tried to reduce the cost of the debt in the form of interest to the lowest possible amount, and "it was a source of real satisfaction to him" that he had confined it thus far "within very

moderate limits. The first loans being of a magnitude hitherto undreamed of in our market, were necessarily made at an interest which he regarded as high, though lenders strenuously insisted on higher;" but large amounts at the date of his report bore only four and five per cent, while the circulation of United-States notes constituted practically a loan from the people to the government without interest. The average rate on the whole loan was thus reduced to four and three-fifths per cent.

The nature and amount of the public debt at the close of the fiscal year, June 30th, 1862, may be summarized :

Mr. Chase had borrowed by authority of the laws enacted previously to March 4, 1861, during the first four months of his administration of the treasury, or to the close of the fiscal year in 1861, ¹	\$14,412,529 ²
During the next year \$60,000,000 of demand treasury-notes were authorized : \$50,000,000 by Act of July 17, 1861, and \$10,000,000 by Act of February 12, 1862, payable for duties, and afterward made a legal tender. Of this amount there were outstanding,	53,040,000
\$150,000,000 of legal-tender notes were authorized by Act of February 25, 1862, of which amount there had been issued,	96,620,000
Treasury-notes payable in three years, bearing 7.3 interest, payable semi-annually, and convertible into twenty-years' six-per-cent bonds, were authorized by Act of July 17, 1862. Under this Act the secretary had issued, . . .	122,836,550
The banks had taken \$100,000,000 of these for the first and second installments of their \$150,000,000 loan.	
The banks had taken bonds authorized by the Act of July 17, 1861, bearing six per cent interest, and running from five to twenty years for their third installment, . . .	50,000,000

¹ Treas. Report, July, 1861, p. 18.

² The total debt at that time was \$90,867,828.

Certificates of deposit bearing from four to five per cent interest had been issued. The first amount authorized was \$25,000,000 by Act of February 25, 1862, increased to \$50,000,000 by Act of March 17, 1862, and to \$150,000,000 by Act of June 30, 1864. Amount issued June 30, . 57,746,116.57

Certificates of indebtedness payable one year from date, bearing six per cent interest. These were authorized by Act of March 1, 1862, 49,881,979.73¹

The income from taxation was largely increased during the fiscal year 1863. The receipts corresponded closely with the estimates from every source of revenue except that of internal revenue, which was less than half the estimated amount. One reason was because many had made their purchases in anticipation of the law, and needed much less for a considerable time afterward. A part of the deficiency was attributed to the imperfect execution of the law, and a part to changes in the rates of taxation by Congress subsequent to the estimate. Leaving out these explanations the amount collected probably would not have been more than half the amount estimated and required.

The law therefore needed amendment, especially for the purpose of increasing the revenue. Congress had tried to enact an effective measure, and deserved no blame for the result. The subject was new, the time for investigation and deliberation was short, and only in the light of experience could the measure be made perfect. Congress might have begun to tax sooner, yet the general feeling prevailed that the war would be short, the indebtedness incurred light, and consequently that resort to internal taxation was unnecessary. These hopes were crushed, and in the summer of 1862 an internal revenue system was adopted. Three years, however, were to

¹ Total debt on June 30, 1862, was \$514,211,371.

go by before much revenue could be gathered from this source.

The law was amended next March,¹ but several of the changes unfavorably affected the revenue. Petroleum was taxed one dollar on a barrel. A tax on sales was first adopted in the Senate, by the vote of the Vice-President, and finally by two majority, and by a similar majority in the House after two rejections, but in the end, defeated by the committee of conference. The most difficult tax to adjust in the bill was that on the circulation of the banks. Mr. Sherman introduced the first bill on the 4th of July, 1862, in which he proposed that any person, corporation, or association, should pay a duty of two per cent on bills issued for circulation as money. The duties were to be paid at the end of each quarter on the largest amount of bills issued during that period. The subject had been frequently discussed in the Senate Finance Committee, and by bankers and commercial papers. Mr. Sherman favored the measure because he believed it was "an imperative" necessity for the government of the United States to drive gradually out of circulation the local bank paper. The amendment was rejected by a vote of ten to twenty-seven, and at the next session the subject was elaborately considered in connection with the \$900,000,000 loan-bill. The banks were paying a tax of three per cent on their earnings, beside stamp duties. The Senate and House differed strongly on the question of taxing their circulation, or rather on the nature of it. Both houses favored a tax, but the Senate tax was the highest. The Committee of Ways and Means reported in favor of a tax of two per cent on the circulation of banks exceeding a certain amount. After passing

¹ Act, March 3, 37 Cong., third session, chap. 74.

the bill, the Senate also passed it with amendments, many of which were accepted by the House. A committee of conference attempted to adjust the others, and they succeeded in adjusting all except the one which taxed the bank circulation. Finally, on the last day of the session, the committee agreed. The Senate had proposed to tax bank circulation one per cent for two years, and two per cent afterward. The House proposed to tax the circulation two per cent above a certain scale. The law prescribed that the banks should pay one per cent semi-annually on the average amount of their circulation issued beyond a prescribed amount.¹

One of the glaring defects of the law was the payment of a tax on all dividends of mutual life insurance companies, thus classing them with the banks, fire insurance, and stock life companies, in which capital is invested with the expectation of producing income. The execution of this part of the law was difficult. The dividends of those companies were declared and paid in such a variety of forms, "as not merely to embarrass the assessment of taxes upon them, but to render any really equitable adjustment of them impossible." Furthermore, the difficulty existed not in the organization of the companies, but in the law itself, for the returns made to insurers, although called "dividends," were "not, in any sense, income," or revenue derived from the investment of capital. The com-

¹ Banks not having over	\$100,000 capital,	. . .	90 per cent.
Over \$100,000, and not over	200,000	" . .	80 "
Over 200,000, "	300,000	" . .	70 "
Over 300,000, "	500,000	" . .	60 "
Over 500,000, "	1,000,000	" . .	50 "
Over 1,000,000, "	1,500,000	" . .	40 "
Over 1,500,000, "	2,000,000	" . .	30 "
Over 2,000,000,		" . .	25 "

missioner of internal revenue recommended that for this tax a stamp tax be substituted on the policies issued by such companies. He believed that fifty cents on each thousand dollars insured might be levied without oppressing the companies, or discouraging the demand for insurance. This change was afterward made.

The administration of the law clearly showed that a much larger revenue ought to be derived from distilled spirits and beer. The experience of England, in the meantime, had been more carefully ascertained. The commissioner recommended that a tax not less than sixty cents a gallon be levied on distilled spirits, and a tax of one dollar and a half per barrel on beer, or a tax of thirty cents a bushel on malt. This was regarded the preferable tax, because it could be more easily collected.

On petroleum, the commissioner thought that for the existing tax, one should be substituted on the crude article before distillation. The fact is worth mentioning, that to articles on which drawbacks were allowed when they were exported, the application of this principle was considered "obviously injudicious." It was apparently a direct discrimination against the people of this country, and in favor of all other nations, in supplying which nature had given us almost a monopoly. As European nations were accustomed to tax products, the growth of this country, severely in importing them, the commissioner considered the matter worthy of consideration whether the moderate duty now imposed on this oil might not be maintained when produced for export.

The tax on tobacco was too light. The proposition was submitted to tax the leaf in the possession of the producer twenty cents a pound, and without drawback on any exported in that form. Such a policy would encourage and sustain our

manufacturers against adverse legislation of a foreign government. A light additional tax varying from five to twelve cents a pound the commissioner favored on the manufactured commodity! "A drawback," he remarked, "on this from ten to fifteen cents would give to the domestic manufacturer all the advantage he would desire in the foreign market, and would, in some measure, countervail the legislation of foreign nations to his prejudice." Many other recommendations were contained in this report which can not be noted here. The changes in rates were mostly in the direction of increasing the amount, and the number of things taxed. The law had been not merely endured, but welcomed by the people, and it was believed that increased taxation would be borne without much murmuring. The law was thoroughly revised in accordance with the commissioner's recommendations, and enacted at the end of June the following year.¹

On the same day Congress enacted another law which increased the duties on imports. Mr. Morrill, when reporting the bill, said that the object was "to increase the revenue upon importations from abroad, and, at the same time, to shelter and nurse our domestic products," from which the largest part of our revenue was drawn, so that the aggregate amount should not be diminished through the substitution of foreign articles for those which we had been accustomed to make at home. Domestic products having been taxed, it was necessary to impose additional taxation to an equal amount on similar foreign products, otherwise the foreign producers would have gained by the change. There was, however, considerable opposition to the bill. Mr. Morrill, when explaining it to the House, admitted that the rates were high nominally, and might

¹ Act, June 30, 38 Cong., first session, chap. 173.

be so regarded by foreign nations, but considering the weight carried by our own people, other nations would be able to continue the race with us on nearly the same terms as before.

The duties on imports were paid in specie, the internal taxes in currency. On the other hand, the imports were paid on a foreign specie valuation, while the internal taxes were paid on a currency valuation. Mr. Morrill contended that one of the taxes "very accurately" equalized the other.

One class of persons favored higher duties, not to strengthen the position of the American competitor, nor to swell the public revenue, but to increase their own profits on the stocks they held. This effect of increased taxation became so well understood, that the rumor of doing so was often skillfully used to advance prices.

As teas had been recently advanced fifty per cent, no additional tax was imposed on them. One of the most perplexing questions was the adjustment of duties on wool and woollen, "so as to obtain a revenue and at the same time to distribute justice to all parties." A concise statement was made of the previous efforts to adjust their interests and the effect of those adjustments. The bill proposed a compound duty, consisting of a graded tax on wools of different values, and an *ad valorem* tax on the manufactured products. The former was intended to cover the increased cost of the wool entering into the composition of the domestic product occasioned by the duty on wool, and the object of the *ad valorem* duty was protection to the American manufacturer. As raw cotton was taxed two cents a pound, "self-preservation required very much higher rates in the tariff on all cotton goods." The duties on drugs and preparations composed in part of alcohol were raised to meet the increased cost of the latter product. The tariff on

iron and steel was raised as much as the internal tax, and slightly beyond in a few cases. The duties on silks were largely increased ; those on salt were not touched.

The Committee on Ways and Means did not recommend extravagant or prohibitory duties for the most cogent reasons. The government sought revenue and such duties would defeat that object. Said Mr. Morrill, in closing his address, " With the home taxation now unavoidable, we are forced to levy far higher duties than usual in order that the industry of the country may not languish, and that we may largely and properly stimulate the productive energies of the nation to create that wealth of which we daily use and destroy so much. But to go beyond this point for the mere benefit of those with large stocks on hand, or to create higher prices where prices are already high enough, would be attended with great danger, as we should advance prices upon the consumer so much as to create discontent among the people, and with no benefit to the treasury. When the profits of any business are suddenly increased, new and inexperienced men rush in, and in a short time create the severest competition which trade and manufactures ever have to encounter. At this time it would not be wise to encourage more men to adventure upon new enterprises than the country will be able to sustain at the close of the war."

The chief opponents of the bill in the House were Messrs. Cox, Ward, and Fernando Wood. It passed by a vote of eighty-four to twenty-seven, was carefully debated in the Senate, amended, and the disagreements between the two houses were settled by a committee of conference.¹

While the treasury department and Congress were busy

¹ Act, June 30, 38 Cong., first session, chap. 171.

revising the tax laws to remove inequalities, and especially to obtain more revenue, the inflow steadily enlarged. The actual receipts from imports for the fiscal year 1864 exceeded by nearly thirty millions the estimated receipts of \$72,562,018, while the receipts from internal revenue, which had been less than forty millions for the ten months of 1862, during which the law was in operation, increased to \$108,260,320 the following year. The other item of receipts worth mentioning was the miscellaneous, which was unusually large, amounting to \$47,511,448.¹

The tax on manufactured goods at first drew forth great opposition from almost every branch of business,² but after

¹ This sum was obtained from the following sources:

Captured and abandoned property	\$2,146,715
Premium on gold shipped from San Francisco to London . .	2,799,920
Sales of prizes and due to captors	4,088,111
Internal and coastwise intercourse fees	5,809,287
Premium on sales of gold coin	16,498,975
Commutation money	12,451,896
All other sources	3,716,542

² In the February number of Hunt's Mer. Magazine for 1864, Amasa Walker wrote: "During the last session of Congress, a manufacturer came on from the East, with the special purpose of obtaining a reduction, or entire exemption upon his particular branch of manufacture. Meeting a member in one of the lobbies, the following dialogue took place:

Manf. I came on, sir, to get relief from an oppressive burden on my branch of the business. There are particular reasons why the article I make should be exempted from the three-per-cent tax.

M. C. What amount do you manufacture annually?

Manf. One hundred thousand dollars worth, on which I pay \$3000.

M. C. And you reckon the tax you pay as part of the cost of your article, and add it to the price, do you not?

Manf. Why, yes, sir.

M. C. What average profit do you calculate to make on your goods?

the transmission and diffusion of the tax became general, it was borne as uncomplainingly as any other. The manufacturers in the Northwest suffered more from it in the beginning than those in other sections. They were taxed by the law of 1862 three per cent on their sales. Prices had not then taken that tremendous rush upward whereby fortunes were made in a day and men grew dizzy with delight. The law was founded on the idea that the consumer always paid the tax. This they maintained was a manifest error. The manufacturers of the Northwest endeavored to get the law modified, and recommended an uniform tax on sales. It was objected that no sales would be made, and that all transactions would be carried on by way of exchange. The further objection was made that such a law would subject articles to more than one tax, and to this it was answered that the existing law was open to the same criticism ; a conclusive objection was that Congress had not time to perfect a bill of so radical a character, and that before attempting to do it the existing law should

Manf. Fifteen per cent.

M. C. Then you make fifteen per cent on the amount you pay in taxes, which if it be \$3000, will give you \$450 more profit than you would get if you paid no taxes. Is it not so ?

The gentleman had no answer prepared to this question, and the conversation closed. Mr. Walker added: 'No disadvantage to the manufacturer accrues in consequence of taxes directly imposed upon his fabrics. He charges the amount upon his goods as tax, as the importer charges the duties he pays upon his merchandise, and the consumer ultimately pays all, together with the profit on the same. The latter is the only one who can make any reasonable objection to this kind of taxation. Such duties in no way cripple the manufacturing interest, unless they be so high as to materially lessen the consumption, and that point is very far from being reached in our present revenue system, and they may be largely increased without detriment, if necessary.' "

have a longer trial. Not despairing, the manufacturers tried to get the principle embodied in the law of levying "but one tax on the same article, or, in other words, of taxing enhanced values only, in the instances of manufactures passing through successive stages of fabrication." Mr. Morrill, who had charge of the subject, said, that if the principle proposed should be adopted, the revenue would be reduced \$30,000,000 to \$40,000,000 per annum, and to this he could not consent at that time. The Committee of Ways and Means admitted its correctness in discussing the bill, and only because revenue was so much needed did they oppose the adoption of the principle. Nevertheless, they consented to some modifications in the direction sought by the manufacturers.¹

Though much better than the former law, it was imperfect in many respects. It had been hastily engrossed; and when put in operation a considerable number of defects appeared. They would have been less numerous had the people been more willing to pay their taxes. The officers, however, who administered it were becoming more competent, they interpreted it more uniformly, and enforced it more effectively. The revenue steadily increased, and it was believed that if the law could be uniformly and strictly enforced no necessity would exist for increasing taxation. To remedy the principal evils, the penalties in certain cases were increased. A uniform tax was imposed on cigars, all tobacco, snuff, and cigars were to be inspected, and a commission was allowed on all collections in order to furnish an additional incentive for collecting the revenue.

The worst defect in the law of 1864, affecting the immediate revenue, was the postponement of the tax on whiskey—

¹ Rep. of Com. of Manuf. Association of Chicago, 1863.

which had been increased from one dollar and fifty cents to two dollars—until the 1st of February. It is singular that, with the experience Congress had already gained in taxing this article, the tax was not made immediately operative. By postponing its operation, the distillers began to increase the supply as fast as possible, in order to get the full benefit of the new tax. Having found out the mistake, when Congress convened in December, the time for executing the law was set back to the first of the year.

Among other amendments proposed at this time, were two, which, though submitted by the Committee of Ways and Means, did not have their recommendation. One of them related to a tax on the circulation of State banks, and the other on sales. The latter tax had been recommended by the Chamber of Commerce of New York, and the Boston Board of Trade, and other associations in 1862.¹ The Boston association remarked in their report on the subject: "Such a duty would reach every kind of business, and under it all classes and parties would fare alike. The well-to-do farmer, the prosperous merchant, the thriving manufacturer, and the laborious artisan, would each and all contribute to the support of the government, and to the maintenance of public credit in just proportion to the amount of their business. The natural equipoise of the various interests would remain undisturbed; and all the repinings and jealousies and heartburnings which follow in the wake of partial legislation would be effectually

¹ The Chamber of Commerce of New York recommended a tax of one per cent on all sales of goods and other property at retail and wholesale, and estimated an annual yield of \$115,000,000, April 25, 1862. The opposition of this and similar associations to an income tax was as strong as their recommendation in favor of a tax on sales. *Proceedings*, 1863, p. 28.

foreclosed. The tax being thus justly distributed, and, consequently, the rate moderate, much of the temptation to evasion, held out by unequal and excessive rates of the bill [then before Congress], would be removed.”¹ These views were approved by the New York Chamber of Commerce.

The experiment of taxing sales was not new. Adam Smith had long ago informed the world how the Alcavala, or ten-per-cent tax on sales had operated in Spain. Through the greater portion of the country to which the tax was applied nothing could be produced for sale. To that tax was imputed the ruin of Spanish manufacturers. In Holland, too, the people, though bearing patiently the Duke of Alva’s revengeful cruelties and religious persecutions, revolted when this tax was laid on them. Many differed from Mr. Morrill, who strongly opposed the tax. When the subject was before the House, in the spring of 1865, he said: “It may be that the only way to satisfy its advocates of the impolicy of this measure will be to test it.” He felt certain, if adopted, that the first thing the people would demand at the next session would be its repeal. “Taxes to be tolerated at all,” he continued, “should be equal. If taxes were placed upon sales, then those living near the place of production would have advantages not available to those remote, in addition to the less cost of freight. The merchandise, foreign or domestic, from the Atlantic coast, before it reaches the Mississippi, passes through the hands of many owners, and according to the theory of taxing sales, its cost would be increased at each successive transfer. The tax would be cumulative, and the internal commerce of our country, always free until now, would be choked or dammed up, confined to narrow localities.

¹ Report on Internal Taxation, p. 10.

We should destroy that great feature of America, the spirit and enterprise of trade. Of what use would it be to produce and to manufacture, if the channels of trade were to have obstructions placed in the way, and rising higher and higher at every step. Better could the manufacturers and producers afford to pay the whole tax now than to have it imposed in this form."

It would also revolutionize trade and drive out of employment the middle men. In the cities only men of large capital and the importers and wholesale merchants would be patronized. Jobbers, retailers, and country merchants would buy of the original importer, if he chose to break up original packages. Those who desired to buy at retail would seek the stream of merchandise at the fountain head before its cost would be increased by repeated taxation. It would increase the prices of every raw material, of every perfected manufacture, out of all proportion to the amount of revenue to be attained. To the consumer it would be the most expensive of all taxes in proportion to the amount realized. Nor could it be fairly and fully collected. More frauds and evasions would be practiced than under any other provisions of the internal revenue laws. The number of men not keeping an account of their sales would multiply.

The two sides were very strenuous in their views. The vote in the House was exceedingly close, fifty-eight to fifty-six, and equally close in the Senate, twenty-two to twenty. The bill went to a committee of conference, and they finally decided to report against the amendment. Senators Howe, of Wisconsin, and Harris, of New York, not reconciled to the action of the committee, prolonged the contention. They were obliged to yield and the experiment was not tried.

The amendment relating to the circulation of banks, proposed by Mr. Hooper, of Massachusetts, was in accordance with the recommendation of the secretary of the treasury and comptroller of the currency in their annual reports. The object of the amendment was to put such a tax on the circulation of State banks which had changed to national ones, or had ceased to exist, and whose circulation had been assumed by national banks, as would cause its retirement, and thus secure a uniform currency. The tax, therefore, was not designed for revenue purposes, but to put an end to the circulation of the State banks. The amendment was defeated, and then he offered another, which met a similar fate. In truth, fourteen amendments were offered and debated. No section of the bill received so much attention; finally, Mr. Wilson, of Iowa, offered one that every national banking association, State bank, or State banking association should pay a tax of ten per cent on the amount of notes of any State bank, or State banking association, paid out by them after the 1st of July, 1866. This was carried and has never been repealed.¹

Increased taxation was recommended by the Committee of Ways and Means on some articles, especially on domestic wines or brandy, or malt liquors; also, a tax of six cents a pound on cotton, payable in coin; nor was there any drawback to be allowed on cotton exported. The Confederate government had imposed a tax of twenty cents a pound on it, payable in their greatly depreciated currency, but as a cotton famine existed and the price was enormously high, it was believed that the tax would be paid. Though not reducing the duty on refined petroleum, a duty of six cents per gallon

¹ Act, March 3, 1865, 38 Cong., second session, chap. 78, sec. 6.

on crude petroleum was proposed without any drawback when exported. This, including the present duty of twenty cents on refined, would be equal to twenty-eight or twenty-nine cents per gallon; "even then, at its market price, next to the sun, it was the most economical light in the world." It was proposed to increase the tax on manufactures from five to six per cent. "It is to be borne in mind," said Mr. Morrill, "that taxes of this kind paid on manufactures can only be defended by the necessities of the day, as each addition lessens the power on the part of the people for consumption, and do not, like duties on imports, give any compensation by an impetus to the industry of the country. As legislators in this critical period in our history, I think it indispensable to our success in the great contest now going on, that we should see to it with the most earnest solicitude that every man, every machine, every engine, and every mill is kept constantly and profitably employed. The capital expended in war is gone forever, and unless the productive energies of the country are skillfully and properly directed to a daily repair of this waste, we shall at the close find the people irretrievably impoverished." "The income tax, intrinsically the most just of all taxes, is yet one extremely difficult of adjustment and collection. The fault found with our present law is that too many large incomes partially escape which ought to contribute more fully. Every man would be content provided his neighbor paid his just proportion. This we have attempted to remedy by providing that in all cases returns shall be made under oath, and that even then this shall not be final unless the assessor shall be satisfied of their correctness. We also propose that all incomes over \$3000 shall be assessed at ten per cent." Most of the recommendations of the committee were adopted, and

the law marked top high water in internal revenue taxation.¹ The war ended the following month, and no longer did the trying problem of increasing the revenue confront Congress. The debt on the last day of March, 1865, was \$2,366,955,077, composed of the following items: ²

Funded debt	\$1,100,361,241
Matured debt	349,420
Temporary loan certificates	52,452,328
Certificates of indebtedness	171,790,000
Interest-bearing notes	526,812,800
Suspended or unpaid requisitions	114,256,548
United-States notes (legal tenders)	433,160,569
Fractional currency	24,254,094
	\$2,423,437,000
Cash in the treasury	56,481,924

¹ Act, March 3, 1865, 38 Cong., second session, chap. 78.

² Ann. Treas. Report, 1867.

CHAPTER XI.

THE NATIONAL BANKING SYSTEM.

EARLY in his administration of the treasury, Mr. Chase pondered over the expediency of replacing the State bank circulation with one furnished by national banks as a means primarily for sustaining the government. The banks in the loyal States were circulating at the beginning of the war about \$150,000,000 of their notes, and Mr. Chase, in his first annual report, inquired whether, as the whole of this circulation constituted a loan without interest from the people to the banks, costing nothing except the expense of issue and interest on the specie kept for redemption, "sound policy did not require that the advantages of this loan be transferred, in part, at least, from the banks, representing only the interests of the stockholders to the government, representing the aggregate interests of the whole people."

Mr. Chase fortified his position with the remark, that the most eminent statesmen had questioned whether a currency of bank-notes issued by local institutions under State laws was not, in truth, prohibited by the national constitution. Such emissions, he maintained, certainly fell within the spirit, if not within the letter, of the constitution, prohibiting the emission of "bills of credit" by the States, and of their making anything except gold and silver coin a legal tender in payment of debts. But the Supreme Court of the United

States, twenty-five years before, had decided that a private corporation, authorized by a State, had the right to issue circulating notes, although the State itself could not, and make them receivable for dues to it. "However this may be," added the secretary, "it is too clear to be reasonably disputed that Congress, under its constitutional powers to lay taxes, to regulate commerce, and to regulate the value of coin, possesses ample authority to control the credit circulation which enters so largely into the transactions of commerce, and affects in so many ways the value of coin. In the judgment of the secretary, the time has arrived when Congress should exercise this authority."

Two plans were proposed by the secretary. The first plan was the gradual withdrawal from circulation of the notes of private corporations, and the substitution of "United-States notes, payable in coin on demand, in amounts sufficient for the useful ends of a representative currency." The second plan was to prepare and deliver to institutions and associations notes for circulation under national direction, secured by the pledge of United-States bonds and other useful regulations, and convertible into coin.

The first plan had been partly adopted at the last session of Congress, when the secretary was authorized to issue \$50,000,000 of United-States notes, payable in coin. That authority, the secretary remarked, might be so extended as to reach the average circulation of the country, while a moderate tax, gradually augmented, on bank-notes, would relieve the national from competition with the State circulation. The substitution of a national for a State currency would be equivalent to a loan to the government without interest, except on the redemption fund, and without expense, except

the cost of preparation, issue, and redemption, while the people would get a uniform currency and bear a smaller burden in the form of interest on the public debt.

The secretary then strongly stated the objections to this plan. "The temptation, especially great in times of pressure and danger, to issue notes without adequate provision for redemption; the ever-present liability to be called on for redemption beyond means, however carefully provided and managed; the hazard of panics, precipitating demands for coin, concentrated on a few points and a single fund; the risk of a depreciated, and depreciating and finally worthless, paper money; the immeasurable evils of dishonored public faith and national bankruptcy—all these are possible consequences of the adoption of a system of government circulation." These possible disasters so much outweighed the probable benefits of the plan, that he opposed the adoption of it.

The principal features of the second plan were, first, the making of notes bearing a common impression, and authenticated by a common authority; second, their redemption by the associations and institutions to which they should be delivered for issue; and, third, the securing of them by a pledge of United-States stocks and an adequate amount of specie.

"If this plan should be adopted," said the secretary, "the people in their ordinary business would find the advantages of uniformity in currency, of uniformity in security, of effectual safeguard—if effectual safeguard is possible—against depreciation, and of protection from losses in discounts and exchanges; while, in the operations of the government the people would find the further advantages of a large demand for government securities, of increased facilities for obtaining the loans required

by the war, and of some alleviation of the burdens on industry through a diminution in the rate of interest, or a participation in the profit of circulation without risking the perils of a great money monopoly."

The secretary possessed "the greatest confidence in this plan, because it had the advantage of recommendation from experience," referring particularly to the trial of the plan in the State of New York.

How long the secretary may have been maturing his opinions on this subject we do not know, but in August, 1861, within a month after the first battle of Bull Run, and when the sanguine hope previously entertained of a speedy ending of the war had faded away, O. B. Potter, of New York, sent a letter to Mr. Chase, containing a plan of a national currency, and which was subsequently printed.

His plan was to authorize banks and bankers in the loyal States to secure their bills by depositing with a superintendent appointed by the government, United-States stocks at their par value, in the same way that the banks and bankers in New York at that time secured their circulation by depositing New-York State and United-States stocks with the State comptroller at Albany.¹ This plan, therefore, provided for a

¹ The National Currency: its Origin. In setting forth his plan, Mr. Potter remarked: "To do this, it is necessary only for the government to authorize and appoint a superintendent connected with the treasury, whose duty it shall be to receive from duly authorized banks and bankers within loyal States, United-States stocks in sums of not less than say \$200,000 from one party, and hold the same as security for an equal amount of bills, to be properly stamped and signed by such superintendent, and delivered to the depositing bank or banker. This mark or stamp and signature of such superintendent to guarantee to the holder of the bills issued that the same are secured by United-States stocks deposited with and held by the govern-

national circulation resting on national bonds issued by a national officer to banks and bankers governed by State authority. Their parentage and discipline were not to be changed.

The bankers of New York having heard that Mr. Chase would recommend a national banking system in his annual report, James Gallatin prepared and read to him "an exposition of the futility of resorting to such a scheme, and explained how it would fail to yield to him the supply of capital which he required."¹ The banks had not yet fully learned how Mr. Chase regarded their advice; their doubt, however, was solved within a few months.

The New-York plan, on which the national banking system was largely, though not wholly, based, had been in operation in that State since 1838. The germ of such a system may be found in the letter of Curtius, addressed to the secretary of the treasury in 1816, on the subject of a national currency. He recommended the formation of a national bank whose capital should consist of "public responsibilities to an amount commensurate with the circulating medium essential to the transfer of property, that certain revenues should be hypothecated to discharge the interest, and that Congress should grant lands as a collateral security. As the notes of this institution," continued the writer, "are intended to represent the circulating medium, the amount of capital should be predicated on an estimate of our present circulation, and by the adoption of public stock,

ment; and that in case the same shall fail to be redeemed by the bank or banker issuing them, then, on due demand and protest, such superintendent will sell, after proper notice to the bank or banker, and apply to the redemption of said bills the stocks held to secure the same."

¹ 16 Bank. Mag., p. 627.

with the hypothecation of real property, to stand as a collateral guarantee, there will be an apparent and sure evidence of responsibility and representative value." In 1827 the idea of Curtius was wrought into a better form by the Rev. Dr. McVickar, and sent to a member of the New-York Legislature. After setting forth the evils attending banking at that time, and the nature of the business and of credit, he proposed a banking system, the first three provisions of which are the following: "1. Banking to be a free trade, in so far as that it may be freely entered into by individuals or associations under the provisions of a general statute. 2. The amount of the banking capital of such individual or association to be freely fixed, but to be invested one-tenth at the discretion of the bank, the remaining nine-tenths in government stock, whereof the bank is to receive the dividends, but the principal is to remain in pledge for the redemption of its promissory notes, under such securities as to place the safety of the public beyond doubt or risk, the stock being made untransferable, except by the order of such court as shall be made cognizant of these subjects with a view to wind up the affairs of the bank. 3. The promissory notes of such individual or association to bear upon their face the nature and amount of the stock thus pledged, together with the usual signatures, and in their amount never to exceed the amount of their pledged stock, under the penalty of the individual or firm being declared bankrupt."

Although the plan did not meet with a favorable reception at Albany, four years afterward, in 1831, some fruit appeared in Maryland. A bill was introduced into the Legislature, providing for free banking. The license, therefore, was to be obtained from the chancellor of the State. The applicant was to exhibit a list of his property, which was to be vested in

trust in a form selected or approved by the chancellor. The deed of trust was to be drawn "in such terms, and with such provisions as he may deem most proper for the security of the object of said trust." The chancellor having approved the deed, the applicant was to receive a certificate from the clerk of the county court of the deposit of the same for record. The next step was for the chancellor to determine the value of the property described in the instrument, and, having done so, he could authorize the applicant to issue notes not exceeding in amount one-fourth of the value of such property. Subsequently, in 1834, several members of a local bank convention, held in Baltimore, favored the establishing of a bank, with three-fourths of the capital permanently invested in mortgages. A copy of the Maryland bill was transmitted to a member of the New-York Senate in 1837, and the next year the banking system was adopted, and which, after a trial of twenty-five years, was to be more highly developed and serve a national purpose.

A bill was prepared by the Committee of Ways and Means, embodying the views of Mr. Chase. The work of preparation mainly fell on Mr. Spaulding, Mr. Hooper and other members rendering valuable assistance. The banking laws of the States were thoroughly examined by competent persons, and utilized. Massachusetts had recently enacted a free banking law, which contained improvements on the New York original, some of which were incorporated in the national bank bill. Other parts were taken from the banking laws of Ohio and Illinois, which were the fruit of much study and experiment. The provisions relating to the reserve fund were drawn largely from the banking law of Louisiana. The bill, therefore, was a mosaic, though containing more of the New-

York banking law than any other. At a meeting of representatives of banks and boards of trade, held in Washington early the next year to consult with Mr. Chase, several propositions were formulated, and among these "that Congress should enact the national currency bill, embracing the general provisions recommended by the secretary in his annual report." The measure was generally discussed by members of Congress, newspapers, bankers, and others, but other business pressed so heavily that even a notice in July to print extra copies was laid on the table. Shortly afterward, Mr. Stevens, the chairman of the committee, reported against the bill. The government having authorized the issue of \$300,000,000 of legal tenders, the consideration of the subject was deferred for the session.

At this time public opinion was divided, and opposition to the plan was not confined to the banks, nor to interests allied with them. In an able and elaborate report on the finances and resources of the country, adopted by a very respectable New York society in January, the following criticism was expressed: "Were this plan of banking adopted, the circulating currency of the country would be irregular in value at different points, for remote banks would not redeem at par at the centre of exchanges. Not only so, but it would be constantly varying in amount, producing perpetual changes in values, for marketable value depends on the quantity of circulating medium. Each bank would sell its security and call in its circulation, whenever the high price of United-States stocks, or the wish of the owner might suggest the course. And again, from other causes, large amounts of bank-notes would, at different times, be thrown out for circulation, and thus, inevitably, would perpetual change in the quantities of

circulating medium perplex and embarrass commercial transactions.”¹

In his next report Mr. Chase strenuously urged the establishing of the system. He said it seemed difficult to conceive of a note circulation which would combine higher local and general credit than this. After a few years no other circulation would be used, nor could the issues of the national circulation be easily increased beyond the legitimate demands of business. Every dollar of circulation would represent real capital actually invested in national stocks, and the total amount issued could always be easily and quickly ascertained from the books of the treasury. These circumstances, if they might not wholly remove the temptation to excessive issues, would certainly reduce it to the lowest point, while the form of the notes, the uniformity of devices, the signatures of national officers, and the imprint of the national seal authenticating the declaration borne on each that it was secured by bonds which represented the faith and capital of the whole

¹“It is true that in the State of New York this system has worked well, but it is equally true that in Illinois it has been a failure; and it would have been a failure in that State on the first financial pressure, had no rebellion occurred. The larger part of the banking capital of the State of New York is in the city of New York, and the centre of exchanges being in the city, capital concentrates there. The city banks have very few bills in circulation, and the result is, that the country banks, which depend for profits on their circulation, issue that circulation without fear, as the city banks are always ready to redeem, and, for a reasonable time, hold the bills of the banks of which they keep the accounts, charging interest on the debit balances, however small, and allowing no interest on credit balances, however large. Excepting in New England, there is no such commanding centre where redemptions are made when needed. As a system for the entire Union, we can draw no proper parallel from the success of the plan in New York.”—*Report of Geographical and Statistical Society*, p. 5.

country, could not fail to make every note as good in any part of the world as the best-known and best-esteemed national securities. Another advantage mentioned by the secretary was the reconciliation, as far as practicable, of "the interests of existing institutions with those of the whole people."

Mr. Chase's recommendation was received with general favor.¹ Nor did the banks disagree with him. Said an excellent authority: "The sound and conservative banks, who look to the safety, the uniformity and the stability of the paper currency of the country as essential to the prosperity and permanency of commerce and finance, consider the proposed change as desirable for the true interests of the people. In this, however, the banks properly exclude the idea of profit to individuals, which now arises from the issue of paper money; but in view of the lamentable evils which have hitherto marked its excesses and abuses, they look at the subject in its broader and national aspects, and conclude that

¹President Lincoln strongly favored the national banking system. In his second annual message, after declaring the desirability of returning to specie payments at "the earliest period compatible with due regard to all interests concerned," and inquiring whether there was any other mode in which the necessary provision for the public wants could be made, and the great advantages of a safe and uniform currency be secured, answered, "I know of none which promises so certain results, and is, at the same time, so unobjectionable, as the organization of banking associations, under a general act of Congress well guarded in its provisions. To such associations the government might furnish circulating notes on the security of United-States bonds deposited in the treasury. These notes, prepared under the supervision of proper officers, being uniform in appearance and security, and convertible always into coin, would at once protect labor against the evils of a vicious currency and facilitate commerce by cheap and safe exchanges."

the interests of the whole country and the whole people are paramount to those of individuals and corporations.”¹ The favoring wind of public opinion had been blowing more and more strongly ever since Mr. Chase made his first recommendation.

A bill was introduced into the House by Mr. Hooper, a member of the Committee of Ways and Means, and reported adversely the next day; at the same time, however, they reported favorably on another bill which had received their consideration. Subsequently Mr. Moorhead introduced a third bill, but no action was taken on either; in the meantime Mr. Sherman introduced one into the Senate, which was reported from the Finance Committee with some amendments, thoroughly debated and passed, and sent to the House on the 12th of February.² The principal speech in favor of the bill was made by Mr. Sherman, and Mr. Collamer, of Vermont, was the strongest opponent. Mr. Sherman first stated the objections to issuing more United-States notes. The danger of over-issuing them was pressing on the country, and their effect in inflating values “was felt by every one.” The mere introduction of a bill in the House to authorize the issue of \$300,000,000 additional United-States notes had operated like magic.³ On the day this was done gold commanded a premium of thirty-six and a half per cent. The next day it rose

¹ 17 Bank. Mag., p. 573.

² The Finance Committee reported favorably by a bare majority of one, Senator Rice, of Minnesota, at the request of Mr. Chase, giving his vote in favor, though voting against the bill on its passage in the Senate.

³ “In one week it changed values over ten per cent, and in three or four weeks it changed them nearly thirty per cent. The proposition of the Senate to check this over-issue at once reduced it some four or five per cent.”—SENATOR SHERMAN, *Speeches*, p. 61.

to thirty-eight ; within three days it rose to forty-one ; on the 15th of January, six days afterward, it rose to forty-eight and a half. " It did not suffer a decline until there was a disposition evinced in the Senate to check the over-issue of this kind of paper money." Nor were the people slow in discovering the opposition of the Senate. Such was the effect of even a proposed over-issue of United-States notes. Moreover, there was no mode of redeeming them, and they could " only be used during the war." Doubtless, most persons shared this belief. " The very moment that peace comes," continued the senator, " all this circulation that now fills the channels of commercial operations will be at once banished. They will be converted into bonds ; and then the contraction of prices will be as rapid as the inflation has been. The issue of government-notes can only be a temporary measure, and is only intended as a temporary measure to provide for a national exigency."

Another objection to issuing more government-notes was the using of them as a basis for bank issues.¹ Since they had

¹ " It is difficult, under the operation of our system, for the secretary of the treasury to carry on the large operations of the government necessary to convert notes into bonds. The first issue of \$60,000,000 of notes were issued with the right of being converted into six-per-cent twenty-years' bonds, and with the privilege of being paid for duties in customs. They are now far above par, and are hoarded. This is the chief reason given why it is necessary to issue a greater amount. Why are they hoarded? Simply because they have certain privileges and certain advantages which the bank paper of the United States has not. The consequence is, the government of the United States is either compelled to receive this bank paper, in violation of the sub-treasury law, or it is compelled to issue a new emission of paper money, and thus depreciate and break down the whole. If Congress allows the issue of the paper money provided for in this bill, what is the consequence? The banks will take it, and issue

been declared a legal tender, the bank circulation had increased from \$120,000,000 to \$167,000,000.¹ The banks sold their gold at a premium, and put legal-tender notes in its place to redeem their own circulation. The senator maintained that

other paper money on the basis of it. Most of their charters require them to keep one-third specie in their vaults; but under the operation of existing laws instead of that specie, they will now keep one-third paper money. Every new issue of treasury-notes is only a bid for a new inflation by the banks, and thus the better money of the United States is hoarded and laid away, and the paper money which is issued on the credit of it is thrown on the country, producing inflation and derangement of our monetary system.”—SENATOR SHERMAN, *Speech in Senate*, July 4, 1862. Robert J. Walker, in reviewing our finances, and Mr. Chase’s report in December, 1862, said: “Just in proportion as the issue of treasury-notes becomes redundant and depreciated, will the bank circulation redeemable in such notes augment and depreciate also. This is the law of bank circulations as now forced upon us by Congress. If this policy is adopted by Congress, an enlarged issue made of treasury-notes, and the plan of the secretary discarded, our bank and treasury-note circulation, with the war continued, will very largely exceed one billion of dollars before the close of the next fiscal year, and both will be depreciated much more than sixty per cent. Thus, if we should enlarge our issues of legal demand treasury-notes to \$500,000,000, and these be made the basis of bank issues, in the ratio of three to one, our total paper circulation would be \$2,000,000,000, such treasury-notes inflating the bank issues, and both depreciating together. The result would be general insolvency and repudiation.”

¹ “When you issue your paper money now, as you are compelled to issue it, it becomes the basis of other issues by the banks, and the inflation which you are compelled to give becomes a double inflation from its consequences on the banks of the United States. When the government of the United States issued \$150,000,000 of notes, if there had been no depreciated bank paper money in the United States, that \$150,000,000 would this moment have been at par with gold; but the issue by the government was made the basis of other issues by local banks.”—SENATOR SHERMAN, *Speech in Senate*, July 4, 1862.

it would be very easy to prove that "during war local banks are the natural enemies of a national currency. Whenever specie payments are suspended, the power to issue a bank-note is the same as the power to coin money. If you give to an individual or a corporation the power to issue his note as money at a time when he is not restrained by the necessity of paying it in gold and silver, you give him practically the power to coin money." The banks in the United States were imitating the Bank of France after it suspended specie payments, and whose conduct was severely censured by Napoleon amid the terrific excitement of his Austerlitz campaign. He wrote to the minister of the treasury that the bank was "coining false money."

No one could deny this statement. The legal-tender notes were lawful money, and the banks could hold them instead of specie for the purpose of redeeming their circulation. The treasury-notes which had been issued from time to time for fifty years until 1862 were not a legal tender, and could not be used to redeem bank-notes. Congress, when authorizing the issue of legal-tender notes, prepared two ways for inflating the currency—one way was by the act of government, and the other by that of the banks. Congress rendered bank-note issuing far easier than ever before.¹ Considering the facility afforded for bank-note expansion after the issue of legal-tender notes, the banks merit some favorable regard for not expanding more rapidly. Nevertheless, the fear that they would issue more notes, and thus accelerate the diminishing value of the entire circulating medium, moved many to favor

¹ "The increase in one year after suspension of specie payment was \$56,000,000. Relieved of all liability to redeem the evident tendency of the banks was to still greater expansion."—*Comptroller's Report*, 1866, p. 67.

a policy of confining the issue of paper money to the government, or to banks amenable to national regulation.¹

In a speech delivered at the previous session, Mr. Sherman had described the "radical objections to the present banking system." At that time one thousand three hundred and ninety-six banks existed in twenty-nine States and one territory. "Their systems of banking," he said, "are as diverse as anything can possibly be. We have a complex system of bank-notes. The ordinary bank-note reporters and detectors contain an infinite variety of descriptions to tell the value of a bank-note, and whether it is counterfeit. The loss by counterfeiting, and the loss by bad notes of various kinds in this country, is estimated by gentlemen who are engaged in the business as nearly equal to the interest on the whole circulation. The people, therefore, are not only compelled to use this money, and substantially give to the banks a profit of the interest on the whole circulation, but in addition to that they fully lose \$9,000,000 in the form of defaced notes, counterfeit notes, etc.

"Every year more or less of these banks break. There is no stability about them. They have no common bond of organization; any important event that disturbs the money market of the world makes a greater flutter among them than

¹ When the bill for authorizing the second issue of \$150,000,000 legal-tender notes was before the House, Mr. Hooper, of Massachusetts, inquired of a member, which he considered had the greatest effect in depreciating the currency, "the unrestrained issue of notes of suspended banks, I mean banks which have suspended specie payment, and upon whose issue there is no kind of restriction, or the issue of these government-notes, the depreciation of which is limited by the convertibility which they carry, into the bonded debt of the country, payable in specie, interest and principal."—*Cong. Globe*, June 19, 1862. See, also, 17 *Bank. Mag.*, 485.

a shot among a bevy of partridges. The uncertain rate of exchange between the different States grows out of the multitude and diversity of the banks. The bank paper of States adjoining each other has varied in value as much as one year's interest of money."

Much was expected of the national banking system. Beside convertibility of the notes, and uniformity in size, Mr. Sherman maintained that if the system were established, a market would be created for the bonds of the government; the national bank-notes would furnish a medium for absorbing those of the State banks; the banks would be safe and convenient depositories of the public money; they would also form a community of interest between the stockholders, the people, and the government; and, finally, the system would promote a sentiment of nationality.

Mr. Collamer opposed the bill in an elaborate speech. He first showed what suffering would be caused in settling the business of the State banks. "It will be found that the people will not break up their present system of banking, interwoven as it is with all their transactions, bound up as their business life is with it, to establish banks under this bill, and they will never buy United-States stocks for this purpose." He questioned the right of the government to impose a tax so great on the State banks as to drive them out of business,—a provision contained in another bill under discussion by the House. He questioned the right of the government to establish corporations in States and territories entirely independent of their power of visitation. He also objected that by putting capital into these banks it would be removed from State taxation. He questioned the propriety of "undertaking as a nation to say that we would be responsible for the ultimate

redemption of these bills by the securities that are deposited." He then showed the danger arising from the system as a political agency. The bill provided for the appointment of a comptroller and other officers and agents. The secretary of the treasury was to be endowed with authority to make some of the banks depositories of the public revenue, and to distribute the \$300,000,000 of stock which could be put into these institutions. "If a secretary of the treasury can be furnished with these powers, and chooses to use them," said the senator, "he must be a very bungling politician if he cannot make himself president any day." Other objections were raised by him, but the most fully discussed feature of the law was the proposed tax of two per cent on their capital.

Senator Harris, of New York, when offering an amendment granting authority to the State banks to receive circulation under their charters, said: "The banks in the State of New York can, I believe, be induced, without surrendering their charters as State banking associations, to take out circulation under the provisions of this bill, but I do not suppose that a single banking institution in the State of New York would ever be induced to surrender the privileges it derives under the State laws, and become an association organized under the provisions of this Act."

James Gallatin, of New York, wrote to Senator Fessenden during the debate: "In our own State, as well as in the West, the system of banking on public stocks has proved delusive in seasons of great depression in the prices of such stocks, being less reliable than banking upon real business mercantile paper (not accommodation) at short dates; and the banks dealing in the latter in this city having been compelled to protect the

circulation of the public stock banks in order to save the latter from bankruptcy."

The debate in the Senate continued until the 12th of February, when the bill passed by the very close vote of twenty-three to twenty-one.

The debate in the House was brief, for the subject had been debated when the \$900,000,000 loan-bill was before that body. The session was rapidly nearing the end, and many important matters required consideration. The discussion opened with a speech by Mr. Spaulding, of New York, followed on the same side by Mr. Fenton, also of that State. He remarked that in November of the previous year the circulation of the banks in the loyal States was \$167,000,000. To redeem this the banks held about \$40,000,000 of State securities, leaving \$120,000,000 inadequately secured. In only nine of the thirty-four States had the principle of securing payment of the bank circulation been adopted.

As the proposed system was not compulsory on existing banks, it would not be regarded with the jealousy of a purely rival scheme, and an intelligent consideration of their own interests, and those of the government and the people, would lead the banks to modify any contemplated opposition; and even if their individual profits and the present modes of business were somewhat injuriously affected, the same liberal and devoted patriotism in support of the public credit heretofore exhibited would insure their acquiescence in all public measures deemed necessary to preserve that credit.

One of the gravest fears of the New-York banks concerning the measure was depreciation on the State bonds held by them to secure their circulation if required to replace them with bonds issued by the government. If they were

driven out of the State system by the taxation of their circulation, or in other ways, it would be necessary to organize under the national system or retire from business. In either event their bonds would be sold, and they feared the consequences. Mr. Fenton said, in reply to this objection, there was reason for believing that in any event the stocks issued by his State would be required "for investment on private and foreign account, and suffer no depreciation." But supposing they might, this was of small moment compared with their greater interest in upholding the credit of the government. At that time the New-York banks held \$12,000,000 of United-States bonds as part security for their circulation, and \$136,000,000 more of these bonds taken for loans and advances to the government.

The principal speech against the bill was delivered by Mr. Baker, also of New York. Many objections were stated, one of which was that the bill did not provide a central place for the redemption of the notes. Each bank was to redeem its circulation at the place of issue. The New-York banking system provided for the redemption of all bank-notes in the chief city of the State. When the previous safety fund system existed there, bank-notes were from one-eighth to two per cent discount, varying by their distance from the place of redemption. "Such would be the case," said Mr. Baker, "with the notes which we propose to issue under this system in each individual State, but the discount upon them would be far greater in other States and at distant points from their place of issue. To remedy this evil, and make this currency of uniform value throughout the United States, it is absolutely necessary that these associations should be compelled to redeem their notes at their counters, at the commercial

centre of each State in which they are located, and also at New York."

Another objection stated by him was the requiring of the banks to keep on hand twenty-five per cent of their circulation and deposits in lawful money.¹ If the banks should keep legal-tender notes for this purpose, and the legal-tender Act should suddenly be declared unconstitutional, the exposed condition of the banks would be apparent.

In a speech prepared by Amasa Walker, of Massachusetts, though not delivered,² he urged the adoption of the proposed system, first, because the notes would be uniformly current

¹ "The States generally allowed banks to issue notes without reference to the amount of specie in their vaults. The only exceptions were the States of Louisiana, which required a reserve of thirty-three per cent upon circulation and deposits, and Massachusetts, which, after 1858, required a reserve of fifteen per cent. No other case is recollected where any definite proportion between specie and immediate liabilities was established by law."—AMASA WALKER, 1 *In. Rev.*, p. 213.

² 17 *Bank. Mag.*, p. 833. "Could I have my own wishes," Mr. Walker said, "I should, as I have before insisted, instead of creating a rival system, lay a tax of three per cent, semi-annually, on all present bank circulation, drive it entirely out of existence, and fill its place with the legal-tender notes of the government; so that, on the return of peace, and specie payments by the government and the banks, there would be no credit currency issues, except those made by the national currency, which, by suitable limitation, might always be kept at par with gold. I would thus establish one kind of currency instead of three, and that the cheapest and best we could possibly have. This arrangement, together with the legal provision that the banks might issue specie certificates in the form of notes for specie actually in their possession, would furnish them and the public with all the currency they could possibly need, and one that would never be exposed to any fluctuation except that which naturally arises from the operation of the laws of trade, and which can never be violent or really injurious to any community or State."

everywhere, and would therefore equalize exchanges between different sections of the country ; secondly, because the system would secure to the people by the tax imposed on the banks a share of the large profits on their notes. Again, it would greatly reduce the danger of counterfeit and spurious emissions.¹ They would be brought directly and uniformly under the control of national legislation, and by thus identifying the interests of the moneyed institutions with the credit of the national government, strength and stability would be given to both. Finally, millions of capital would be diverted from the East to the West, where it would be more actively and profitably employed for business purposes.²

¹ At that time there were seven thousand kinds of bank-notes in circulation.

² Perhaps the last noteworthy argument against the national banking system was made by Mr. Van Dyck, the superintendent of the banking department of New York, at the beginning of 1864. He remarked that "the first obvious effect of the national system must be the inordinate multiplications of banks of small capitals throughout the country. The slightest familiarity with the location of these institutions must enforce the conclusion that they are not established in accordance with the requirements of legitimate business, adequate to the support of a bank, but that they are designed merely as conduits through which the circulation received from Washington is to flow out upon the community." The idea had been inculcated that the notes thus sent forth possessed all the attributes of a currency issued by the nation itself, that they would maintain an illimitable round of circulation and their "putative fathers" would never be called on to fulfill the promise of payment until Columbus discovered another continent, or De Soto called at the bank on his way up the Mississippi. Under these seductive influences, aided by the hope of becoming depositories of the public funds, Mr. Van Dyck regarded a rapid increase of the banks not improbable, and that a large accession to the irredeemable currency would "serve further to illustrate the problem of the rising properties of gold, and the sinking properties of paper."—18 *Bank. Mag.*, p. 817.

The bill passed by a vote of seventy-eight to sixty-four on the 20th of February. Many were in favor of establishing the national banking system because they believed it would be a great improvement on the State systems.¹ The people, if gaining much, had also suffered much from them. Inside and outside Congress opposition to these institutions was strong and increasing.² Notwithstanding the assistance they had rendered to the government, not a few persons ascribed base motives to them, and charged them with making large profits from their operations with the government. Although the fact was otherwise, hostility to them was widespread. Mr. Chase sought to intensify it, and particularly in his annual report for 1863, wherein he boldly stated that "much of the greater part of the rise of prices not accounted for by the sudden war demand for things, as well as much the greater part of the difference between notes and gold, was attributable to the large amount of bank-notes yet in circulation. Were these notes withdrawn from use it is believed," he maintained, "that much of the now very considerable difference between

¹ "At present, Illinois and the States north and west of her have but few banks. Now, as a matter of absolute certainty, these States will proceed to establish banking institutions under their own laws. They may not do this at present. Illinois, for example, has been so scathed and plundered by credit money banking, that she may be slow in creating another such system; but she will do it, because the clamor for banks, and the mistaken views of the masses in regard to paper currency, will compel its legislature to create new banking institutions. So of all the States of the West. But pass this bill and we put an end to the formation of these new State banks; because such are the facilities which this law gives, and such the character of the currency it establishes, that it will have the preference over any that can be created by State legislation." — AMASA WALKER, 1 *In. Rev.*, p. 213.

² See Watts's Speech, Cong. Globe, June 23, 1862.

coin and United-States notes would disappear." This statement is completely saturated with error. The "difference between notes and gold was attributable," not so much to "the large amount of bank-notes" as to the larger amount of government circulation, for the reason that the former was taken just as readily as the other and was not in the least depreciated, measured by the government paper standard. If Mr. Chase supposed that the State bank circulation affected prices differently from the government-notes when both circulated at the same value, the distinction was purely imaginary, and his evident endeavor to make the public believe that the banks were responsible for the rise in prices, except as above explained, was to swell the current of popular sentiment more strongly against these institutions. Why did he not put his statement the other way, that if legal-tender notes had not been issued, "no difference between gold and notes" would have occurred. This statement would have contained far more truth than the other, but would have not served his purpose.

The most important provisions of the law were that five or more persons could form a banking association, and on depositing \$50,000, or a larger amount, of any kind of government interest-bearing bonds with the United-States treasurer, could receive circulating notes to the amount of ninety per cent of the current and par value of the bonds deposited. These notes were to be receivable for all government dues except duties on imports, and payable on government debts except for interest on its bonds. In lieu of all taxes on circulation or bonds, the banks were to pay semi-annually one-half of one per cent on their circulation,¹ and they were to conform

¹ On the 5th of January, 1863, Mr. Sherman introduced a bill for the levy of a tax of two per cent on the circulation of all bank-bills, and a tax of ten

to the laws of the States in fixing their rates of interest. They were to keep on hand, in lawful money, at least twenty-five per cent of their notes and deposits, and were to redeem their circulation at the place of issue. The amount to be issued was fixed at \$300,000,000, one-half of which was to be issued to banks in States and territories, determined by their population, the other half was to be distributed with regard to the existing bank capital, business, and resources of each State. A bureau of currency was to be established in the treasury department, and administered by a comptroller and proper subordinate officers. He was to be appointed by the President, on the recommendation of the secretary of the treasury, with the consent of the Senate, and hold his office for five years.

Although the system was rapidly growing in public favor, heavy streams of criticism were poured on the law from various points. Some persons criticised the law in detail, others as a whole. Many persons of position and experience maintained that if more paper money was wanted the government ought to furnish it instead of banking institutions. This opinion was held by the committee of the New-York Clearing-house, who were appointed to examine the law. "If," said the committee, "more currency is required for the legitimate business of the country, why should not the government avail itself of the opportunity to issue a further amount of legal-per cent on all fractional currency under one dollar issued by corporations and individuals. Three days afterward he delivered a lengthy speech on this bill, in which he showed particularly the defects of State banking, and the expediency and justice of the proposed tax. The main purpose of the bill stated, in his own language, was "to induce the banks of the United States to withdraw their bank paper, in order to substitute for it a national currency, or rather the national currency we have already adopted."

tender notes? They do furnish a currency of uniform value—less the expense of transportation—in every part of the Union. Whereas, the national bank currency is not lawful money, and, being payable in different parts of every State, must be subject to the laws of exchange, which are as infallible as the laws of gravitation, and necessitate a discount on bank-bills payable at a distance from business centres, even when redeemable in specie. Paper currency, merely, is poor enough, at the best; why, then, should the government be willing to give the people an inferior paper currency when it commands a superior one?”

The committee did not state that, in their judgment, the present issue of legal-tender notes was in excess of the wants of government and requirements of business. They were aware that the average amount of legal-tender notes held by New-York City banks, for several months past, had not exceeded twenty millions of dollars, although those notes constituted the reserve or medium of settlement in place of specie. Had this currency been superabundant it would have shown itself in large accumulations at the principal cities—New York, Boston, and Philadelphia.

“Various causes combined had created an increased demand for currency, and the following was regarded as among the principal ones, namely: 1. The withdrawal of specie from commercial and mercantile transactions; 2. The advance in prices of all commodities; 3. The shortening of credits in every branch of business; 4. The large payments to the army and navy, and other war disbursements. This leaves out of the account the whole western country, which, by the annihilation, two and a half years ago, of its banking institutions (founded on State stocks), was completely emptied of paper

currency, and had to be filled up anew, not only to the measure of its former fullness, but far beyond it; for the United States has been buying largely of almost all the products of the West, and not only the United-States government, but Europe, also, has been a purchaser, and all has been paid for in 'legal tenders.' Indeed, the demand from the West for these notes is constantly increasing, being larger this autumn than ever before. This currency the people are satisfied with."¹ Another bank officer, early in the year, had said that "in view of the debasement of the circulating medium, and of the entire absence of all ordinary power to restrain the expansion, it was for the government, with a bold hand, to seize the control of the whole currency of the country as a war measure." This argument was more strenuously urged against the adoption of the law than any other.

The banks organized more rapidly at first in the West than in the East.² One reason was because the charters of the State banks of Ohio and Indiana, and of other banks, were soon to expire. Hugh McCulloch, president of the bank of the State of Indiana, an important institution which he had managed with marked success, was appointed comptroller of the currency. Though at first opposed to the national banking system, his efficiency in administering his office was quickly recognized. When he made his first report at the close of November, 1863, one hundred and thirty-four banks had been organized, fourteen of which were in New England,

¹ Report on the National Bank Currency Act, p. 17. See, also, A Reply to this Report by "A Member of Congress," 1864.

² The First National Bank of Springfield, Mass., was the first association to become a body corporate, Feb. 20, 1863, but the First National Bank of Philadelphia was the first authorized to begin business, June 20, 1863.

sixteen in New York, twenty in Pennsylvania, twenty in Indiana, thirty-eight in Ohio, seven in Illinois, six in Iowa, and four each in Michigan and Wisconsin. The opinion was rapidly spreading that even in the Eastern States the national system would soon supersede the State systems of banking. The issue of national bank-notes was delayed, and none appeared until the 21st of December.

The comptroller's first instruction required the banks in organizing to designate themselves as first, second, etc., national bank of the place in which they were located.¹ The State banks, whose good names were worth as much to them as a good character to a man, were unwilling to throw away so valuable a possession. Though appeals were made to the secretary, he was inflexible. "This arbitrary rule," wrote James Gallatin, "is so destructive to that individuality which gives rise to, and is a reward of enterprise and skill, that it recalls the edicts of 'uniformity' and 'conformity' of benighted countries and times. Among savage or barbarous tribes, family names are unknown, and in semi-barbarous countries all that love of individuality which characterizes the progress of advancing civilization is studiously repressed. It is to be hoped the secretary will, upon reflection, retrace this step toward barbarism, recall his numerical edict, and permit each bank to be known by something more expressive than a mere number."² Mr. McCulloch defended the action of the secretary, maintaining that it was not the name of a bank, but the character of the men who conducted its affairs, and the character of its securities, that won for it the public confidence.³ All who connected themselves with the system had

¹ 18 Bank. Mag., p. 191.

² National Debt, p. 15.

³ 18 Bank. Mag., p. 205.

a common interest in making it symmetrical as well as national. The retention by the State banks of their present corporate names, some of them long, and differing from others only in locality, would prevent this, and interfere with the uniformity which it was desirable to maintain in the national circulation. Nevertheless, the comptroller did not shut out the possibility of permitting the banks to retain, "in some way, their former corporate names." This "must be done," he added, "in such manner" as would not interfere with the symmetry of the circulation which was to be furnished to them, nor render illegal their acts as national associations. At a later period, national banks were organized with the substitution of something more distinctive for the numeral in the name.¹

At the next session, Congress thoroughly amended the law. It could not reasonably be expected that an Act so elaborate would be faultless. A large portion of the comptroller's report was devoted to an exposition of its imperfections. The two most important recommendations urged were the enactment of a law making a uniform rate of interest of seven per cent in all the States, and the redemption of the notes of interior banks in the commercial cities. Congress enacted that national banks in nineteen of the principal places in the Union should keep twenty-five per cent, in lawful money, on hand to redeem their circulation and deposits; and other banks should keep six per cent on hand and nine per cent more with the banks in the reserve cities, while they, in turn, should redeem the circulation of the others, and select

¹The National Exchange Bank of New-York City was the first national bank without a numeral forming a part of its name. It was authorized to begin business, March 16, 1864.

banks in New-York City to do the same thing for themselves. Such was the first step taken by Congress in the way of centralizing the work of redeeming the national bank issues. The principal new features of the law were authority to form banks with a larger capital, for State banks to become national associations "by the name prescribed in its organization certificate," for existing national banks to change their name within six months from the time of enacting the law, and the voluntary closing of the banks thus formed.

Many of the States now passed laws to aid the State banks to reorganize under the national system.¹ Reorganization went rapidly onward, as well as the formation of new banks. The next year the comptroller reported that two hundred and eighty-two new banks had been organized since the date of his last report, and sixty-seven State banks had reorganized. There were then in existence five hundred and eighty-four national banking associations, having a capital stock of \$108,964,599 and \$65,864,650 circulation, and holding \$81,961,450 bonds. Reorganization was accomplished without disturbing the business of the country, either of curtailing the discounts of customers, or inconveniencing them in making their deposits. Nor was the stock of the State banks depreciated by reorganizing; on the contrary, the shares of most of them rose in value. Moreover, the fear that the national banking system would be the means of filling the country with banks possessing fictitious capitals was never realized.

¹ The majority of the committee on banks of the New York legislature opposed such a law on the ground that if the banks reorganized under it a large amount of capital would be released from State taxation. "There is no more appropriate subject of taxation," said the committee, "than banks, banking, and bank stocks, and none to which the States ought more pertinaciously to cling." The report was made April 1, 1864.

Mr. McCulloch, therefore, in his second report, remarked that his experience had resulted in the entering up of a popular judgment in favor of the national banking system ; a judgment, not that the system was perfect, nor free from danger of abuse, but safer, better adapted to the nature of our political institutions and to our commercial necessities, giving more strength to the government, with less risk of use by the government against the just rights of the States or the people than any system that had yet been devised.

At the close of the next session of Congress, March 3, 1865, it was enacted that, in forming national banks a preference should be given to those State banks not having over \$75,000, which applied before the first of the following July. By way of giving the State banks another strong boost out of existence, Congress imposed a tax of ten per cent per annum on all their notes issued after July 1, 1866. No wonder that Mr. Clarke, who succeeded Mr. McCulloch, could say, in his first report, that nearly all the State banks had voluntarily changed into national associations. Lured with the prospect of larger gains by changing their corporate character, with the certainty of losing their circulation if they did not change, they went over to the majority. Happily, the transformation was made without deranging their business, "or affecting essentially the volume of bank-note circulation."

CHAPTER XII.

APPROPRIATIONS AND EXPENDITURES.

1861-1865.

IN a former volume were described the principal appropriation laws for expending the public money. These were founded on annual estimates prepared by clerks in the executive departments and submitted to Congress through the secretary of the treasury. At the beginning of the war the expenditures, except those relating to the public debt, were made chiefly by authority of one of eleven annual appropriation laws. During the war the amount annually appropriated swelled enormously, but neither the mode of appropriating money nor the number of appropriation laws was changed. It was impossible to estimate with certainty the sums that would be needed for many purposes, and Congress could do nothing more than to follow the recommendations of the departments. Thus a sub-section of the army appropriation law for the fiscal year 1862 contained an appropriation of \$10,000,000 for many purposes which were specified, but not the amount for one of them. The appropriation was a guess, for no one could foretell what amount would be required for anything.

Beside the annual appropriation laws, a portion of the national income has always been expended by other appropriation laws of a permanent nature. The list of these was in-

creased during the period covered by this chapter to pay the owners of captured and abandoned property in insurrectionary districts who could prove their right thereto in the Court of Claims. An "indefinite appropriation" was made in 1862 to pay the allowance or drawback granted on articles subjected to an internal duty when they were exported, also to repay the excess of deposits for unascertained duties, or duties or other money paid under protest, or for refunding duties paid or accruing on merchandise injured or destroyed by fire or other cause when in the custody of the officers of the government.

From an early period of the government, the secretary of the treasury has made annually an elaborate report of the receipts and expenditures. This he has been required to do by a standing order of the House passed in 1791. The report is prepared by the register of the treasury, and contains, first, a general account of the receipts and expenditures of the fiscal year covered by it; second, the expenditures and repayments under each head of appropriation, showing the aggregate paid to and repaid by each individual during the year. This account contains the payment for the support of the civil list (that is, the legislative, executive, and judiciary), miscellaneous, intercourse with foreign nations, department of the interior, military establishment, naval establishment, public debt, surplus fund, and outstanding warrants. The third part of the report consists of statements of the appropriations made for the fiscal year, including the balances on hand at the beginning of it, the payments made during the year, the sums carried to the surplus fund, and the balances unexpended at the end of the year. The next part contains statements of the balances due by or in favor of supervisors, collectors, and officers charged with the administration of the internal revenue laws. Last,

the report contains a statement of the annual operations of the land office. From this source, therefore, can be obtained complete and detailed information of the public receipts and expenditures. It is our purpose not to give any figures here, but to show how the government, through its officers, contracted for supplies and paid for them, what efficiency was displayed in transacting the business, what frauds were discovered, and how the guilty were treated.

A few months before the war, Congress enacted that all purchases and contracts for supplies or services, except personal ones, in any department, should be made by advertising in a specified manner for proposals, unless the public exigency required the immediate undertaking of the service or furnishing of the supplies. If such an exigency arose, contracts could be made in the manner usual between individuals. More specific regulations were then prescribed for the secretary of the navy. He was required to make his estimates for expenditures for "freight and transportation, printing and stationery," and twenty other specified purposes in detail, and the expenditures made under the appropriations were to "be accounted for so as to show the disbursements of each bureau under each respective appropriation." All appropriations for specific, general, and contingent expenses of the navy department, it was afterward enacted, should be made by the secretary himself, and the appropriation for each bureau should be kept separate in the treasury. In making contracts he was required to advertise once a week for four weeks, in one or more of the principal papers published in the place where the articles were to be furnished, for sealed proposals for furnishing them, or the whole of any particular class of them. The advertisement, furthermore, was to specify

the amount, quantity, and description of each kind of articles, and the proposals were to be kept sealed until the day specified in the advertisement for opening them. This was to be done by the advertising officer, or by his direction, and in the presence of two or more persons. If the lowest bidder failed to enter into the contract, and to give the security required by law, the next lowest bidder had the privilege of making the contract on the same terms as were required of the first. This law, modified from time to time, had been in operation since 1843.

The modes for making contracts to supply the government were therefore simple, yet adequate, if the persons appointed to conduct the business had always been honest and efficient. But rascality, widespread and sickening, soon appeared. Said Mr. Van Wyck, a member of the House from New York, and chairman of the committee to investigate the subject of defrauding the government: "The mania for stealing seems to have run through all the relations of the government—almost from the general to the drummer-boy; from those nearest the throne of power to the nearest tide-waiter. Nearly every man who deals with the government seems to feel or desire that it would not long survive, and each had a common right to plunder while it lived. Colonels, intrusted with the power of raising regiments, colluding with contractors, bartering away and dividing contracts for horses and other supplies to enrich personal favorites, purchasing articles and compelling false invoices to be given. While it is no justification, the example has been set in the very departments of the government. As a general thing, none but favorites gain access there, and no others can obtain contracts which bear enormous profits. They violate the plain provisions of the law requiring

bids and proposals on the false and shallow pretext that the public exigency requires it.”¹

The opportunities for perpetrating frauds and making fortunes were improved so quickly that in a short time after the war began the people generally were disturbed by the stories of peculation. At the July session in 1861 the speaker appointed a special committee to investigate them. Beside Mr. Van Wyck, the chairman, were six more members, E. B. Washburne, W. S. Holman, R. E. Fenton, H. L. Dawes, W. G. Steele, and James S. Jackson. The committee performed a vast amount of labor, and made three reports, the first on the 17th of December,² containing over eleven hundred pages, the second on the 17th of July³ the following year, and which was a much larger document than the other, and a third and final report on the 3d of March, 1863.⁴ One of the gravest wrongs reported was the plain violation by the departments of the law which required them in making contracts to advertise for proposals and to accept the proposal of the lowest bidder. Instead of executing this reasonable requirement, the secretaries in many cases made contracts with their friends for the furnishing of supplies, justifying themselves on the ground of public exigency. Commissions were usually paid on the purchase-money, varying from two and one-half to five per cent. The committee recommended the passage of a resolution condemning this practice, and it was passed unanimously. The resolution was especially aimed at the navy department, where most of these peculiar contracts appeared. Unhappily, they were not limited to that department. Others were found in the war department, which had

¹ Cong. Globe, Feb. 7, 1862.

² No. 2, vol. 1, 37 Cong., second session.

³ No. 2, vol. 2. Ibid.

⁴ No. 49, 37 Cong., second session.

been made during the administration of President Lincoln's first war secretary.

Probably no useful purpose would be served in giving a lengthy history of the frauds committed. While in contemporary life we are more prone to remember the weaknesses of mankind than their virtues, history reverses this tendency, and delights chiefly in setting forth the better phases of human activity. It may prove useful, however, to show how the law was violated, in order to see clearly the need of remedying it, and whether the remedy prescribed was effective.

The investigating committee were subject to severe criticism from the time of beginning their work until the end of the Congress. Nearly every person who had wronged the government had friends, and sought to defend himself. Newspapers often fought valiantly for the speculators, and so did some of the members of Congress. The enemies of the committee were watchful, and improved every favorable opportunity for an assault. Especially when the members were absent from the House, investigating, in New York or elsewhere, an assailant would deliver a speech in the House, and the news would be sent abroad that the investigating committee had been attacked and no one had replied. In many ways the assailants sought to lessen the importance of the work of the committee, and to render the members unpopular. Mr. Roscoe Conkling, at that time a member of the House, sharply denounced the work of the committee, maintaining that "the nation, the government, classes of individuals, and individuals themselves, had suffered in character; that we had lost caste, and that much harm had come, not from detecting or exposing fraud or extravagance, but from magnifying and exaggerating what had happened, and charging and publishing to the world

what had never happened at all." His best known ally who assailed the committee was Schuyler Colfax, of Indiana.

At the close of their report in December, 1861, the committee reported the following resolution, "that the practice of employing irresponsible parties, having no official connection with the government, in the performance of public duties, which may be properly performed by regular officers of the government, and of purchasing by private contract supplies for the different departments, where open and fair competition might be properly invited by reasonable advertisements for proposals, is injurious to the public service, and meets the unqualified disapprobation of this House." This resolution, so obviously proper, never passed ; the House refused to order a yea and nay vote thereon, and the committee were powerless to administer an effective check to wrong doing. They maintained in their report, however, that "many frauds had been exposed, the government relieved from many unconscionable contracts, and millions of dollars saved to the treasury." Notwithstanding the conclusive evidence of fraud against several persons, the committee regretted, and so did the people, that punishment was not "meted out to the basest class of transgressors. They to whom this duty belonged," added the committee, "seemed sadly to have neglected it. Worse than traitors in arms," were the men declared to be, who, pretending loyalty to the flag, feasted and fattened on the misfortunes of the nation. To them the committee applied the following couplet :

"May life's unblest cup for such
Be drugged with treacheries to the brim."

"The leniency of the government toward these men," said the committee, in closing their remarkable report of nearly

three thousand pages, "is a marvel which the present cannot appreciate and history never explain."

Perhaps history can never explain another matter. After the committee had been at work for several months, Mr. Van Wyck desired to investigate the mode of conducting business at the New-York Custom-house. The other members objected for lack of time. Finally, it was decided that Mr. Van Wyck should take the evidence while the other members continued their work of investigating government contracts. A large body of evidence was collected by him, but very unexpectedly to himself he was instructed by the committee not to proceed in his investigations without further orders. He never received orders to proceed; the other members of the committee returned to New York, and after receiving evidence in defence of what had been done in the custom-house, ordered the testimony taken by Mr. Van Wyck to be deposited with the clerk of the House, and held by him "subject only to the inspection of any member of the committee." Why was Mr. Van Wyck summarily suspended from conducting his investigations? His answer was because of "the clamor of the revenue officers and their friends." Personal influence is a magical power, the effects of which are often more clearly seen than traced to their precise source. This investigating committee, whose work is one of the most remarkable products of the thirty-seventh Congress, doubtless had a reason for their order instructing Mr. Van Wyck to discontinue his investigations. What that reason was, however, we fear will never be explained, but remain unknown, like the reason for not prosecuting the public plunderers whose ignoble conduct had been clearly exposed, and especially those who had fraudulently enriched themselves by what the investigating com-

mittee, with undesigned and rare felicity, called "private contracts."

The investigation did yield some fruit in the nature of legislation for the prevention of fraud. Congress enacted that the secretaries of the navy and interior, and of war, should put every contract made by them, or by officers appointed to make contracts, in writing and should have them signed with the names of the contractors, and also to file a copy in the "Returns Office" of the department of the interior as soon as possible, and within thirty days after making them, and also all bids, offers, and proposals. The officers making such contracts were to swear to them, and penalties were prescribed for violations of the law. The quartermaster-general of the army convinced Congress that the law could not be then enforced, and consequently the execution of it was delayed until the beginning of 1863.¹

Two months after the law began to operate, Congress resolved that the chief of any bureau of the navy department should be at liberty to reject the offers of those who had failed as principals or sureties on previous contracts to furnish naval supplies. In those made with the same bureau, one contractor could not be received as surety for another; every contract should require the delivery of a specified quantity, and no bids having nominal or fictitious prices could be considered. "If more than one bid be offered by any one party, by or in the name of his or their clerk, partner, or other person, all such bids may be rejected; and no person shall be received as a contractor who is not a manufacturer of, or regular dealer in, the articles which he offers to supply, who has not a license as such manufacturer or dealer. And all persons offering bids

¹ Act, June 2, 1862, 37 Cong., second session, chap. 93. Ibid., chap. 203.

shall have the right to be present when the bids are opened, and inspect the same.”¹

Notwithstanding this carefully devised measure, enacted to supplement those already existing on the subject, and to guide the department in making contracts and to prevent the committing of frauds, a committee reported the next year that their investigations satisfied them “beyond a doubt that in the matter of naval supplies the previous year the government had been grossly defrauded by having to pay most exorbitant and enormous prices for very many of the articles procured by contract with the heads of several of the bureaus.”

If a person desired to bid for any class of articles that were advertised, he was referred to the several navy agents and chiefs of bureaus to ascertain what kind of an article was wanted whenever the advertisement did not contain the needful information. Prior to the legislation in 1863, the navy department claimed and exercised the right of exacting from a contractor the supply of a greater amount of the article specified than that mentioned in the advertisement. As that was for a class, and the bid was accepted or rejected for the class as a whole, he was accounted the lowest bidder whose aggregate amount for the whole was the least. “A bidder, by ascertaining what particular item would be required only in small quantities, and what articles would be wanted in the greatest quantity, was enabled, by filling the former at a very low figure, much below the real value or market price, to put a very high figure on those articles of which a large quantity would probably be required, and thus secure the contract by this mode of bidding to the exclusion of one who bid a fair and honest price for each article, although the latter would,

¹ Res., March 3, 1863, 37 Cong., third session, No. 32.

in fact, be most advantageous to the government." There were, therefore, two defects in the former system; the navy department advertised for a great variety of articles, in which cases the bidder must find out, if possible, what articles would be wanted; another defect consisted in advertising for a quantity of merchandise, with the stipulation that an additional amount of any kind needed during the year of making the bid might be demanded, in which case the bidder must consider what quantities would be wanted. Thus the schedules advertised were no fixed criterion for the quantity to be supplied. A contractor of much experience wrote to one of the officers in the navy department that instead of a clearly defined contract, indicating what the buyer was to receive and the seller to give, during its continuance the result was a lottery to each. The law of March 3, 1863, remedied some of the evils. By advertising for specific quantities, fictitious and excessive prices disappeared. By this reform the most prominent evils of past years were removed.

Yet frauds continued. One way of continuing them was to prevent competition among bidders. An analysis of certain contracts and bids with the bureaus for the year 1863 showed that certain parties, A, B, C, and D, of New York, obtained contracts of a most extraordinary nature, involving great loss to the government. In cases of only one bidder the national government suffered severely from the lack of competition. When only the four above named were the bidders, prices rose in the most remarkable manner from a high starting point. When competition appeared from other parties, "with a marvelous intuition one or more of A, B, C, and D moderated their views of the value of the merchandise, approximating the judgment of the outside competitor, and frequently underbid-

ding him altogether." In June of that year, when a more active competition existed, this quartette were found competitors in almost every class, "at prices as extraordinarily low as in February they were extraordinarily high." The clear inference from these facts was, that the parties, A, B, C, and D, knew what the other bids contained. Another way of practicing the frauds was to make incorrect additions. As the total amounts of two bills containing similar items varied, the smaller one was taken. Of course, when the contract was ultimately settled, the error would be corrected, but it had served the purpose designed of securing the contract.¹

Payment by the government of the vast number of obligations constantly accruing was not easy. First of all, the money must be obtained for making payment. How this was done we have already described. But often the government was heavily in arrears, and contractors could not do otherwise than to wait. Many of them accepted certificates of indebtedness in settlement of their demands. Others took greenbacks, or whatever the government could give to them.

Among the most dissatisfied creditors of this period were the holders of the loan of 1842, which became due on the 1st of January, 1863. During the last three months of the previous year, they frequently inquired of the secretary whether the bonds would be paid in specie or treasury-notes. The premium on gold was then ranging from twenty-two to thirty-four per cent. The secretary refused to give the desired information, and many of the holders, fearing they would not receive coin, sold their bonds at less than par.² In the middle of December the House adopted a resolution directing the secretary to furnish a statement of the amount of the loan,

¹ Senate Report, No. 99, 38 Cong., first session. ² 19 Bank. Mag., p. 3.

and whether he proposed to pay it in coin. The principal object of Mr. Cox, who presented the resolution, was to find out, if possible, the secretary's intended mode of liquidating the loan. The secretary's reply was delayed, in consequence of his resignation,¹ until the 5th of January, and after the bonds had been paid. Had he not resigned, so he replied, the House would have been promptly advised of his intention in respect to the mode of payment. His judgment was determined in favor of paying coin, not merely by the weighty considerations growing out of the beneficial influences of public credit, but because he could obtain the needed specie at a cost so small that payment in coin was, in truth, less inconvenient to the treasury than payment in notes would have been.² His doubt about the true mode of liquidation doubtless vanished when he received a joint letter, if not before, written at his request, and signed by the presidents of twenty of the New York banks, declaring that "in the negotiation of future loans, either at home or abroad, the credit of the government would be greatly promoted by payment [in coin], while a failure to meet the just expectation of the public, and of the holders of this loan, would deteriorate the value of all government stocks to an extent far exceeding the whole

¹ He resigned on the 20th of December, and resumed office two days afterward.

² Where did he get the coin? "The whole amount of coin required was advanced by moneyed institutions, most of which, it is believed, had no interest in the loan, nor any interest in the transaction, except what arises from the general support of the public credit, and the advance was made without premium, and at an interest of four per cent, and is not to be called for until it can be re-imbursed from receipts from customs." Letter on United-States loan created in 1841, Ex. Doc., No. 27, 37 Cong., third session. The amount of the loan was \$2,883,364.

sum in question." The secretary ought not to have doubted for an instant, and his conduct caused another jar of the public credit.¹

The mode of settling accounts was just the same as before the war. More persons were employed to transact the business, the number of auditors was increased, and the efficiency generally shown in settling claims was very great.

Many claims, however, were irregular, and these rapidly multiplied during the war. The Court of Claims investigated and reported on a large number; Congress adjusted others; many were referred back by Congress to the departments, with special authority for their adjustment. Thus, in 1863, Congress authorized the secretary of the navy to adjust and settle the claims of contractors for those naval supplies which had been furnished during the preceding year that exceeded by more than one hundred per cent the quantities specified in their contracts and without their default. The chief of any bureau with which any contract of the kind was made could associate with himself the chief of any other bureau to hear the evidence relating to it, but an appeal lay from his decision to the secretary. The law also provided that no contractor should be allowed, except on the excess furnished by him, and on this "not more than sufficient to make the price thereon equal to the fair market value of the supplies at the time and place of delivery." Nothing, however, was to be allowed any contractor, unless there had been an actual loss to him on the whole contract. He was, moreover, required to present his claim within six months from the enactment of the law, or be forever barred from "any equitable claim" against the government.²

¹ 19 Bank. Mag., p. 3.

² Res., March 3, 1863. No. 32.

CHAPTER XIII.

THE COST OF THE WAR.

THE cost of the war to the general government and to the States cannot be accurately ascertained, because claims are annually presented and paid ; moreover, beside the existing war debt, is the interest thereon, and payments for pensions, which doubtless will continue for many years. Revolutionary claims have hardly ceased, and a hundred years are likely to pass before the account-books for suppressing the rebellion will be closed.

The following statement of expenditure to June 30, 1879, is the best that we are able to lay before the reader.¹

Appropriation.	Gross Expenditure.	Expenditure other than for the war.	Expenditure growing out of the war.
Expenses of national loans and currency	\$51,522,730 77	.....	\$51,522,730 77
Premiums	59,738,167 73	.....	59,738,167 73
Interest on public debt.....	1,809,301,485 19	\$45,045,286 74	1,764,256,198 45
Expenses of collecting revenue from customs.....	99,690,808 31	57,151,550 44	42,539,257 87
Judgments of Court of Claims	5,516,260 75	551,626 07	4,964,634 68
Payments of judgments Court of Alabama Claims.....	9,315,753 19	.....	9,315,753 19
Salaries and expenses of Southern Claims Commission.....	371,321 82	.....	371,321 82
Salaries and expenses of American and British Claims Commission	295,878 54	.....	295,878 54
Award to British claimants.....	1,929,819 00	.....	1,929,819 00
Tribunal of arbitration at Geneva	244,815 40	.....	244,815 40
Salaries and expenses of Alabama Claims Commission.....	253,231 12	.....	253,231 12
Salaries and contingent expenses of Pension Office.....	7,095,968 05	1,870,180 00	5,225,788 05
Salaries and contingent expenses of War Department....	15,331,956 58	2,712,693 79	12,619,262 79
Salaries and contingent expenses of Executive Departments (exclusive of Pension Office and War Department)...	33,944,017 67	10,110,745 70	23,833,271 97

¹ Sen. Doc., No. 206, 46 Cong., second session.

Appropriation.	Gross Expenditure.	Expenditure other than for the war.	Expenditure growing out of the war.
Expenses of assessing and collecting internal revenue.....	\$112,803,841 31	.....	\$112,803,841 31
Miscellaneous accounts.....	2,664,199 82	\$456,714 21	2,207,485 61
Subsistence of the Army.....	420,041,037 75	38,623,489 17	381,417,548 58
Quartermaster's Department.....	357,518,966 61	58,037,048 95	299,481,917 66
Incidental expenses of Quartermaster's Department.....	101,528,573 37	16,185,839 74	85,342,733 63
Transportation of the Army.....	407,463,324 81	70,669,439 25	336,793,885 56
Transportation of officers and their baggage.....	4,626,219 66	1,601,000 00	3,025,219 66
Clothing of the Army.....	356,651,466 31	11,107,586 11	345,543,880 20
Purchase of horses for cavalry and artillery.....	130,990,762 95	4,318,339 51	126,672,423 44
Barracks, quarters, &c.....	49,872,669 48	18,801,822 89	31,070,846 59
Heating and cooking stoves.....	487,881 45	39,150 00	448,731 45
Pay, mileage, general expenses, &c., of the Army.....	184,473,721 26	106,388,991 79	78,084,729 47
Pay of two and three years' volunteers.....	1,040,102,702 58	.....	1,040,102,702 58
Pay of three months' volunteers.....	868,305 41	.....	868,305 41
Pay, &c., of one hundred days' volunteers.....	14,386,778 29	.....	14,386,778 29
Pay of militia and volunteers.....	6,126,952 65	.....	6,126,952 65
Pay, &c., to officers and men in the Department of the Missouri.....	844,150 55	.....	844,150 55
Pay and supplies of one hundred days' volunteers.....	4,824,877 68	.....	4,824,877 68
Bounty to volunteers and regulars on enlistment.....	38,522,046 20	.....	38,522,046 20
Bounty to volunteers and their widows and legal heirs.....	31,760,345 95	.....	31,760,345 95
Additional bounty act of July 28, 1866.....	69,998,786 71	.....	69,998,786 71
Collection and payment of bounty, &c., to colored soldiers, &c.....	268,158 11	.....	268,158 11
Reimbursing States for moneys expended for payment of military service of United States ¹	9,635,512 85	.....	9,635,512 85
Defraying expenses of minutemen and volunteers in Pennsylvania, Maryland, Ohio, Indiana, and Kentucky.....	597,178 30	.....	597,178 30
Refunding to States expenses incurred on account of volunteers.....	31,297,242 60	.....	31,297,242 60
Reimbursements to Baltimore for aid in construction of defensive works in 1863.....	96,152 00	.....	96,152 00
Payment to members of certain military organizations in Kansas.....	296,097 28	.....	296,097 28
Expenses of recruiting.....	2,568,639 91	1,270,673 56	1,297,966 35
Draft and substitute fund.....	9,713,873 13	.....	9,713,873 13
Medical and Hospital Department.....	46,954,146 83	1,845,376 47	45,108,770 36
Medical and Surgical History and Statistics.....	196,048 32	.....	196,048 32
Medical Museum and Library.....	55,000 00	.....	55,000 00
Providing for comfort of sick, wounded, and discharged soldiers.....	2,232,785 12	.....	2,232,785 12
Freedmen's Hospital and Asylum.....	123,487 49	.....	123,487 49
Artificial limbs and appliances.....	509,283 21	.....	509,283 21

¹ Sen. Doc., No. 74, 46 Cong., second session.

Appropriation.	Gross Expenditure.	Expenditure other than for the war.	Expenditure growing out of the war.
Ordnance service.....	\$6,114,533 38	\$1,561,001 67	\$4,553,531 71
Ordnance, ordnance stores, and supplies.....	59,798,079 70	3,864,146 87	55,933,932 83
Armament of fortifications.....	12,336,710 88	2,118,238 79	10,218,472 09
National armories, arsenals, &c.....	29,730,717 53	6,127,228 21	23,603,489 32
Purchase of arms for volunteers and regulars.....	76,378,935 13		76,378,935 13
Traveling expenses First Michigan Cavalry and California and Nevada Volunteers.....	84,131 50		84,131 50
Payment of expenses under reconstruction acts.....	3,128,905 94		3,128,905 94
Secret service.....	681,587 42		681,587 42
Books of tactics.....	172,568 15		172,568 15
Medals of honor.....	29,890 00		29,890 00
Support of National Home for disabled volunteer soldiers...	8,546,184 76		8,546,184 76
Publication of official records of war of the rebellion.....	170,998 98		170,998 98
Contingencies of the Army and Adjutant-General's Department.....	3,291,835 14	565,136 39	2,726,698 75
Payments under special acts of relief.....	1,088,406 83		1,088,406 83
Copying official reports.....	5,000 00		5,000 00
Expenses of court of inquiry in 1868 and 1869.....	5,000 00		5,000 00
United States police for Baltimore.....	100,000 00		100,000 00
Preparing a register of volunteers.....	1,015 45		1,015 45
Army pensions ¹	437,744,192 80	30,315,000 00	407,429,192 80
Telegraph for military purposes	2,500,085 80		2,500,085 80
Maintenance of gunboat fleet proper.....	5,244,684 32		5,244,684 32
Keeping, transporting, and supplying prisoners of war.....	7,659,411 60		7,659,411 60
Permanent forts and fortifications; surveys for military defenses; contingencies of fortifications; platform for cannon of large caliber, &c., from 1862 to 1868.....	20,887,756 96	7,483,765 87	13,403,991 09
Construction and maintenance of steam-rams.....	1,370,730 42		1,370,730 42
Signal service.....	222,269 79	78,472 23	143,797 56
Gunboats on the Western rivers	3,239,314 18		3,239,314 18
Supplying, transporting, and delivering arms and munitions of war to loyal citizens in States in rebellion against the Government of the United States.....	1,649,596 57		1,649,596 57
Collecting, organizing and drilling volunteers.....	29,091,666 57		29,091,666 57
Bridge-trains and equipage.....	1,413,701 75		1,413,701 75
Tool and siege trains.....	702,250 00		702,250 00
Completing the defenses of Washington.....	912,283 01		912,283 01
Commutation of rations to prisoners of war in rebel States...	320,636 62		320,636 62
National cemeteries.....	4,162,848 39		4,162,848 39
Purchase of Ford's theatre.....	88,000 00		88,000 00
Temporary relief to destitute people in District of Columbia	57,000 00		57,000 00

¹ See Report of Third Auditor, 1884.

Appropriation.	Gross Expenditure.	Expenditure other than for the war.	Expenditure growing out of the war.
Headstones, erection of headstones, pay of superintendents, and removing the remains of officers to national cemeteries	\$1,080,185 54	.....	\$1,080,185 54
State of Tennessee for keeping and maintaining United States military prisoners.....	22,749 49	.....	22,749 49
Capture of Jeff. Davis.....	97,031 62	.....	97,031 62
Removing wreck of gunboat Oregon in Chefunct River, Louisiana	5,500 00	.....	5,500 00
Support of Bureau of Refugees and Freedmen.....	11,454,237 30	.....	11,454,237 30
Claims for Quartermaster's stores and missionary supplies	850,220 91	.....	850,220 91
Miscellaneous claims audited by Third Auditor	94,223 11	\$47,112 11	47,111 00
Claims of loyal citizens for supplies furnished during the rebellion.....	4,270,304 54	.....	4,170,304 54
Payment for use of Corcoran Art Gallery.....	125,000 00	.....	125,000 00
Expenses of sales of stores and material	5,842 43	.....	5,842 43
Transportation of insane volunteer soldiers.....	1,000 00	.....	1,000 00
Horses and other property lost in military service.....	4,281,724 91	.....	4,281,724 91
Purchase of cemetery grounds near Columbus, Ohio.....	500 00	.....	500 00
Fortifications on the northern frontier	683,748 12	.....	683,748 12
Pay of the Navy.....	144,540,073 96	70,086,769 62	74,462,304 34
Provisions of the Navy.....	32,771,931 16	16,403,307 34	16,368,623 82
Clothing of the Navy.....	2,709,491 98	1,114,701 00	1,594,790 98
Construction and repair.....	170,007,781 25	35,829,684 80	134,178,096 45
Equipment of vessels.....	25,174,614 53	.....	25,174,614 53
Ordnance	38,063,357 67	6,641,263 30	31,422,094 37
Surgeons' necessities.....	2,178,769 74	241,025 68	1,937,744 06
Yards and Docks.....	33,638,156 59	3,337,854 52	30,300,302 07
Fuel for the Navy.....	19,952,754 36	8,612,521 68	11,340,232 68
Hemp for the Navy.....	2,836,916 69	1,938,664 42	898,252 27
Steam machinery.....	49,297,318 57	.....	49,297,318 57
Navigation.....	2,526,247 00	.....	2,526,247 00
Naval Hospitals.....	875,452 34	373,789 40	499,662 94
Magazines	753,822 13	349,290 48	404,531 65
Marine Corps, pay, clothing, &c.	16,726,906 00	8,969,290 82	7,757,615 18
Naval Academy	2,640,440 87	778,308 86	1,862,132 01
Naval Asylum, Philadelphia.....	652,049 89	65,394 00	586,655 89
Temporary increase of the Navy	8,123,766 21	.....	8,123,766 21
Miscellaneous appropriations.....	2,614,044 77	.....	2,614,044 77
Naval pensions.....	7,540,043 00	950,000 00	6,590,043 00
Bounties to seamen.....	2,821,530 10	.....	2,821,530 10
Bounty for destruction of enemies' vessels	271,309 28	.....	271,309 28
Indemnity for lost clothing.....	389,025 33	.....	389,025 33
Total expenditures.....	\$6,844,571,431 03	\$654,641,522 45	\$6,189,929,908 58

Near the close of 1865 a bill was introduced into the House to reimburse the loyal States for the advances they had made and debts contracted in support of the war. The

amount expended by the States and municipalities was \$467,954,364. The expenditure by each State is shown in the following table :

Maine	\$12,632,580	West Virginia	\$2,000,000
New Hampshire	13,125,000	Ohio	64,867,813
Vermont	8,806,759	Indiana	22,334,967
Massachusetts	47,809,827	Illinois	30,000,000
Rhode Island	6,500,772	Michigan	12,000,000
Connecticut	17,386,151	Wisconsin	12,240,795
New York	111,005,953	Minnesota	2,518,361
New Jersey	26,786,421	Iowa	2,200,000
Pennsylvania	53,527,395	Missouri	9,446,575
Delaware	1,140,000	Kentucky	2,150,537
Maryland	8,656,458	Kansas	818,000

Of the expense incurred by the States, only a portion appears in the above statement. With the swift cooling of the war fever, bounties became necessary to stimulate enlistment, and the war expenses of the States and municipalities rapidly increased. In 1861 the highways were filled with volunteers eagerly rushing to the front ; in 1865 they went with much slower pace and with a better conception of the hazardous game of war.

A large portion of State expenditure was for bounties to avoid applying the principle of conscription. "As this was for an object no less national in its character than the preservation of the general government, the States had a right to expect that in some form they would be reimbursed."

One plan for doing this was to relinquish to them "some particular source of revenue—to be appropriated and used by the States to that express purpose." It was proposed to devote the income tax to this purpose.¹

¹ Sen. Mis. Doc., No. 4, 39 Cong., second session.

A committee of the House recommended the reimbursing to the States of twenty-five per cent of the average expenditure of each soldier who had served three years, in addition to the amount paid by the general government.¹ The total number who had served the government was 2,688,523, and for the average period of three years, 2,154,311.² The

¹ Feb. 16, 1866, No. 16, 39 Cong., first session.

² The following tables give the number of soldiers and their length of service by States.

States and Territories.	Men furnished under call of April 15, 1861, for 75,000 militia for three months.	Men furnished under call of May 3, 1861, (confirmed by Act of August 6, 1861) and also under calls under acts approved July 22 and 25, 1861, for 500,000 men, for—				Men furnished in May and June, 1862, by special authority, for three months.	Men furnished under call of July 2, 1862, for 300,000 men for three years.	Men furnished under call of August 4, 1862, for 300,000 militia for nine months.	Men furnished under President's proclamation of June 16, 1863, for militia for six months.	Men furnished under call of October 17, 1863,* and February 1, 1864, for 500,000 men for three years.
		Six months.	One year.	Two years.	Three years.					
1 Maine	771	.....	.....	.....	18,104	.....	6,644	7,620	.....	13,912
2 New Hampshire	779	.....	.....	.....	8,338	.....	6,390	1,736	.....	6,967
3 Vermont	782	.....	.....	.....	9,508	.....	4,369	4,781	.....	8,611
4 Massachusetts	3,736	.....	.....	.....	32,177	.....	16,719	16,685	103	21,413
5 Rhode Island	3,147	.....	.....	.....	6,286	.....	2,742	2,059	.....	3,686
6 Connecticut	2,402	.....	.....	.....	10,865	.....	9,195	5,602	.....	11,874
7 New York	13,906	.....	30,950	.....	89,281	8,588	78,904	1,781	.....	75,733
8 New Jersey	3,123	.....	.....	.....	11,523	.....	3,499	10,787	.....	9,187
9 Pennsylvania	20,173	.....	.....	.....	85,160	.....	30,891	32,215	3,798	53,369
10 Delaware	775	.....	.....	.....	1,826	.....	2,508	1,799	.....	2,573
11 Maryland .....	.....	.....	.....	.....	9,355	.....	3,386	.....	1,615	7,950
12 West Virginia	900	.....	.....	.....	12,757	.....	4,925	.....	1,148	3,988
13 Dis. of Columbia	4,720	.....	.....	.....	1,795	.....	1,167	.....	.....	4,888
14 Ohio	12,357	.....	863	.....	83,253	.....	58,325	.....	2,736	32,837
15 Indiana	4,686	.....	1,698	.....	59,643	1,723	30,359	337	3,767	22,228
16 Illinois	4,820	.....	.....	.....	81,952	4,696	58,689	.....	.....	32,179
17 Michigan	781	.....	.....	.....	23,546	.....	17,656	.....	.....	20,047
18 Wisconsin	817	.....	.....	.....	25,499	.....	14,472	958	.....	15,469
19 Minnesota	930	.....	1,167	.....	5,770	.....	4,626	.....	.....	3,052
20 Iowa	968	.....	.....	.....	21,987	.....	24,438	.....	.....	9,396
21 Missouri	10,591	2,715	199	.....	22,324	.....	28,324	.....	* 3,284	3,889
22 Kentucky .....	.....	.....	5,129	.....	29,966	.....	6,403	.....	.....	4,785
23 Kansas	650	.....	.....	.....	6,953	.....	2,936	.....	.....	5,374
24 Tennessee .....	.....	.....	.....	.....	3,989	.....	8,088	.....	.....	.....
25 California .....	.....	.....	.....	.....	5,701	.....	1,750	.....	.....	.....
26 Nevada .....	.....	.....	.....	.....	.....	.....	216	.....	.....	.....
27 Oregon .....	.....	.....	.....	.....	362	.....	15	.....	.....	.....
28 Wash. Ter'y .....	.....	.....	.....	.....	895	.....	.....	.....	.....	.....
29 Nebraska Ter'y .....	.....	.....	.....	.....	.....	.....	81	1,198	.....	.....
30 Colorado Ter'y .....	.....	.....	.....	.....	1,453	.....	309	.....	.....	.....
31 Dakota Ter'y .....	.....	.....	.....	.....	87	.....	94	.....	.....	.....
32 N. Mexico Ter'y	1,510	.....	.....	.....	864	.....	21	.....	.....	.....
Totals	93,326	2,715	9,056	30,950	671,419	15,007	430,201	87,558	16,361	374,807

* Furnished in November, 1864.

† Which embraces men raised by draft in 1863.

average cost of each soldier was \$220. One quarter of the cost therefore was \$55 per man, the aggregate of which was \$118,487,105. The committee further recommended the issue of bonds for this amount, payable in twenty years from their date. Among other reasons in support of this recommendation was the monopolizing by the government of all the channels of indirect taxation, leaving to the States no mode of raising a revenue, except "that which is the hardest and most oppressive, the direct local tax." As the House

	Men furnished under call of March 14, 1864, for 200,000 men for three years.	Militia for one hundred (100) days mustered into service between April 23 and July 18, 1864.	Men furnished under call of July 18, 1864, for 500,000 men, for—				Men furnished under call of December 19, 1864, for 300,000 men, for—				Aggregate number of men furnished under all calls.	Aggregate number of men furnished under all calls, reduced to a three-years' standard.
			One year.	Two years.	Three years.	Four years.	One year.	Two years.	Three years.	Four years.		
1	7,042		8,331	131	2,300	1	4,626	141	1,829	3	71,745	56,595
2	2,955	167	1,921	25	4,027		492	9	771	28	34,605	30,827
3	1,690		1,861	18	2,081	11	962	29	534	9	35,246	29,052
4	18,876	6,809	6,990	108	24,641		1,533	40	2,153	2	151,785	123,844
5	2,032		1,233	196	891		739	92	618		23,711	17,878
6	5,260		495	20	10,318	24	34	5	1,174	2	57,270	50,514
7	44,453	5,640	56,968	1,506	25,297	72	9,137	1,616	20,257	67	464,156	381,996
8	12,611	769	10,882	540	3,697		6,501	1,075	3,162	155	79,511	55,785
9	45,617	7,675	42,133	433	12,493	198	26,744	204	3,267	44	366,326	267,558
10	1,603		1,558	9	593	15	376	5	11		13,651	10,303
11	11,501	1,297	6,229	246	3,727	64	3,237	430	1,094		49,731	40,692
12	3,857		1,726	28	202		2,112	9	351		32,003	27,653
13	1,142		908	59	937	343	693	12	116	2	16,872	11,506
14	36,221	36,254	25,613	761	4,625		21,721	641	926		317,133	237,976
15	14,783	7,197	17,733	597	7,158		20,736	243	2,259		195,147	152,283
16	21,351	11,328	13,482	535	1,375		25,835	355	1,620		258,217	212,994
17	7,697		5,983	57	6,492		6,775	41	1,044		90,119	80,865
18	10,059	2,134	10,921	86	5,832		9,620	15	236		96,118	78,985
19	3,494		2,794	205	239		2,691	12	54		25,034	19,675
20	10,072	3,901	4,062	60	168		771	15	22		75,860	68,182
21	9,733		7,782	1,295	14,430		3,161	44	1,002		108,773	86,192
22	9,409		5,084	169	10,137		1,986	7	5,405		78,540	70,348
23	2,563	441	29	3	319		623	36	170		20,097	18,654
24											12,077	12,077
25											7,451	7,451
26											216	216
27											617	581
28											895	895
29											1,279	380
30											1,762	1,762
31											181	181
32											2,395	1,011
	284,021	83,652	234,798	7,087	142,269	728	151,105	5,076	48,079	312	2,688,523	2,154,311

* Furnished for four months.

did not regard the recommendation of the committee favorably, Mr. Blaine, the chairman, moved that the bill be recommitted and continued until the next session. This was done, and then the subject was pressed forward. After several delays he succeeded, on the 14th of February, in getting the House to act. The bonds recommended by the committee were not to be negotiable until after the 1st of July, 1867, "and then only upon the indorsement of the governor of the State." Mr. Delano, of Ohio, was opposed to the bill because other claims which had been presented first demanded the attention of the House, especially those of loyal persons in the loyal and disloyal States whose property had been taken for the use of the army. The question of paying these must be met; moreover, they created a demand on the government infinitely more potential than the claims of the States. Besides, a bounty bill, which demanded "consideration, perhaps, over any other measure," would take \$250,000,000 from the treasury. He was "for the measure," but thought it could "bear postponement," and so did a large majority of the House. Thus the bill was safely entombed, nor has any archangel of Congress yet blown the trumpet of resurrection.

BOOK II.

FROM SEPTEMBER, 1865, TO MARCH, 1885.

CHAPTER I.

CONSTITUTIONALITY OF THE LEGAL-TENDER LAW.

THE constitutionality of the bill for issuing legal-tender notes was questioned from the beginning. Notwithstanding the declaration of many members of Congress that they would not favor the extension of the principal, \$450,000,000 of legal-tender notes were authorized, beside \$400,000,000 of one and two year notes, bearing not more than six per cent interest in currency, and \$400,000,000 of three-year notes—an aggregate of \$1,250,000,000.¹ There is no reason to think, said Mr. Chase, after he assumed the judicial office, that the utility of the interest-bearing notes was increased or diminished by making them a legal tender for their face amount. That they never entered largely or permanently into circulation, a statement also made by him, is partly true, for they did not live long, yet while they did, many millions were circulated.

¹The Acts under which legal-tender notes were issued may be thus summarized :

February 25, 1862		\$150,000,000
July 11, 1862		150,000,000
January 17, and March 17, 1863		150,000,000
March 3, 1863, six-per-cent interest-bearing notes, running not longer than two years		400,000,000
June 30, 1864, and January 28, 1865, 7.3 per-cent interest- bearing notes, running for three years or longer		400,000,000

See statement of indebtedness in Appendix of any Annual Finance Report for several years after the war; also, Knox's United-States Notes, chap. ix.

Throughout the war, and afterward, the constitutional doubt hanging over them affected their value. This doubt was used as an argument against the national banking system, for it was proposed to redeem the notes of the banks in those issued by the government. If the law authorizing their issue should be declared unconstitutional, in what jeopardy would the banks be put! On the other hand, their issue was regarded as temporary, and their disappearance certain, as soon as the war closed, by conversion into bonds. Had this expectation been fulfilled, the supreme court would have had no occasion for making a series of legal-tender decisions, which caused more commingled joy and regret than any decision, except that against *Dred Scot*, ever made by that tribunal.

The first decision concerning the constitutionality of the legal-tender law was made by the Supreme Court of New York in April, 1863.¹ The court sustained the law on the ground of necessity. We know of no opinion subsequently written containing better reasoning for sustaining the law. "For the purpose of carrying on the war in which our people are engaged, the government may lawfully seize and appropriate the property of any citizen for the public use. The sovereign power of the State may do whatever is necessary for the safety and defence of the State. The only limit to its power under our constitution is, that the means be, in the opinion of Congress, necessary and proper to accomplish the end in view in the exercise of any of the enumerated powers of government. If the government may seize and appropriate the property of the citizens without limit, to carry on the war, and for the common defence, certainly it may take it by means of forced loans. All governments in times of war have been

¹ *Hague vs. Powers*, 39 Barbour, p. 427.

obliged to resort to such loans, and their usefulness is unquestionable; for *salus populi suprema lex* is the universal rule among all nations in time of war.

“It is said that it may be necessary for the government to borrow money and issue treasury-notes, but that does not make it necessary and proper under the general clause of section eight of the constitution, above recited, to make such notes a legal tender.” This the court conceived “to be purely a question of legislative discretion.”

“Money is necessary to carry on the war, and sustain the government in the exercise of all the foregoing enumerated powers. If, in the opinion of the legislature of the nation, it is necessary and proper to issue treasury-notes, and to make such notes a legal tender, in order to procure the requisite money and keep up the credit of the government, and prevent its failure and overthrow, most certainly the legislative authority of the nation has the sovereign and unquestionable right so to declare and so to enact. It does not pertain to the judiciary to question the propriety of the exercise of its undoubted discretion on the subject.”

The Court of Appeals of New York¹ decided in the same way, and Mr. Chase was gratified “to know that a tribunal so distinguished by the learning and virtue of its members had given the sanction of its judgment to the constitutional validity of the law.”² Not long afterward he gratified himself even more by deciding the same question the other way.

All the State courts except Pennsylvania³ followed in the wake of the courts of New York; nevertheless, the question

¹ *Metropolitan Bank vs. Van Dyck*, 27 New York, p. 400.

² *Ann. Treas. Report*, 1863.

³ *Shollenberger vs. Brinton*, 52 Penn., p. 9.

could be settled only by the decision of the supreme federal tribunal. In newspaper, magazine, and pamphlet, the matter was discussed from every side. What the framers of the constitution said and intended was told over and over, yet we have abundant proof for saying that a large portion of the most intelligent and candid persons sustained the Act as a war measure and on that ground alone. They did not attempt to find the power to issue notes in the constitution, but in a necessity more imperious than any written law.

In December, 1867, the case of *Hepburn against Griswold*,¹ which involved the question of the constitutionality of the law, was argued before the United-States Supreme Court. Nearly three years had passed since the close of the war, ample time, truly, for converting the notes into bonds, yet nearly the whole amount remained in circulation. The question was deemed so important by the attorney-general, Mr. Hoar, that he desired a reargument of the case in order to be heard. An order was made accordingly, and at the succeeding term the case was reargued. The next April a law was passed increasing the number of judges from eight to nine, but no appointment was made until the end of January, 1870. After the second argument the court held the case under advisement until November, 1869, when a majority, consisting of the chief justice and four of his associates, Nelson, Grier, Clifford, and Field, decided the law to be unconstitutional, and appointed the chief justice to write the opinion. This was read in conference on the 29th of January, 1870, by the chief justice, his four associates above mentioned expressing their concurrence. He would have read it in public two days afterward, had not the minority re-

¹ 8 Wallace, p. 603.

requested the postponement of the public reading for a week in order to give them time to prepare a dissenting opinion to be read on the same occasion. On the 31st of January, Judge Grier was present, but the next day he sent his resignation to the President. When, therefore, the chief justice read his opinion, two vacancies existed on the bench, one caused by Judge Grier's resignation and the other by operation of law increasing the number.¹

The decision was not a surprise. The opinion of the four associates had long been known, and though Mr. Chase had favored the issue of legal-tender notes when secretary of the treasury, it was generally believed that he had changed front on the subject. Yet the genuineness of his conversion was doubted, and probably always will be. Of course, human conduct is marked with mental and moral imperfection, and if Mr. Chase had really undergone a change of opinion, he did right in deciding against the constitutionality of the law. He hesitated to declare, when secretary, that no constitutional barrier existed against issuing the notes, and did so solely because the necessities of the government were so pressing.² Did he, when reflecting on the event, conclude that the necessities were not so grave in 1862, as he declared them to be? If they did not exist, why did he resort to the issuing of a kind of notes which were so distasteful to him? Had he admitted in 1869 that he was in error in 1862, no one would have questioned the admission. He did not admit this, though his decision, in truth, implied as much, for surely if the government could have found any other way to obtain money, the necessity for issuing the notes did not exist. Strenuous

¹ See Dissenting opinion by Mr. Justice Field in *Knox vs. Lee*.

² See page 54.

to create them, Judge Chase's decision is a strong adverse judgment against the correctness of his conception of the situation of the government at that time. Did the chief justice understand this when rendering his decision? He knew that his opinion of the constitutionality of the law was contrary to the one formerly expressed, but probably he went no further. His reason for changing has never been satisfactory to all his friends. One class have never questioned its soundness; another and much larger class have believed that the true reason for his opinion was not put in writing. The presidential vision had been haunting and tormenting him for several years. It obtruded even in the serene air of the court-room. Like Poe's Raven, it would not go away at his bidding. He believed that he could improve his chance to get the presidential nomination of the Democratic party by declaring the legal-tender law to be unconstitutional. If, therefore, in rendering the legal-tender decision, he forgot the injunction to "turn not aside from the commandments to the right hand or to the left," his heart certainly was "not lifted up above his brethren." Such is the verdict of his best friends. This decision, as he believed, bore directly on his political prospects, and he sought to improve the occasion to the utmost for himself. Tried by the Judean standard, his judgment was not like the morning before the sun riseth, even as the morning without clouds.

The decision produced no serious effect on business. If the legal consequence had been to render the notes void, the effect would have been terrific, but the only effect was to deprive them of their legal-tender quality. They circulated just as readily as before. No change was made in the bank reserve. What would have happened had the decision been made in

1864 instead of 1870 need not be considered; doubtless, the power of the government to carry on the war would have been dreadfully shaken. In 1870, however, there was no occasion for stretching further the legal-tender power; the debt had been put into a manageable form, a large reduction had been made, the public credit had been greatly strengthened, and, so far as the government was concerned, the decision had no effect on its credit. The notes were worth no more nor less; their redemption was neither hastened nor delayed. It is true that a speedy decision of a different kind was confidently expected at the time this was rendered, and had this not been the case the decision might have proved more serious, at least to private interests. Anyhow, as the sky of the debt-owing classes was gilded with this expectation, they did not suffer.

Why did they expect that the supreme court would reverse their own decision? Because the two vacancies existing on the bench when *Hepburn against Griswold* was decided were soon after filled by Judges Strong and Bradley, who had previously expressed favorable opinions of the law in private consultations.¹ Thus a court now existed, composed of five judges who regarded the law constitutional, and four who had declared it invalid. As soon as the bench was filled Attorney-general Hoar applied for another argument of the question in the case of *Knox against Lee*.² This application was

¹ See articles in *N. Y. World*, April 7 and 11, 1874, *Was the Supreme Court Packed*, and the *Packed Supreme Court's Legal-Tender Decision*; Brooks Adams's article in 6 *International Rev.*, p. 635; Bowen's *Basis and Scope of the Legal-Tender Decisions*; Spear's *Legal-Tender Acts*, chap. 7, on their Construction; *Fiat Money: a Review of the Decisions of the U. S. Sup. Ct. as to its Constitutionality*, by Francis A. Brooks.

² 12 Wallace, p. 457.

granted, the third argument was made, and five judges against four declared the law to be constitutional. Judge Strong wrote the opinion of the court, and his new associate, Judge Bradley, wrote another. Thus the question was finally settled. Judge Strong remarked that it would be difficult to over-estimate the consequences which must follow the decision. They would affect the entire business of the country, and take hold of the possible continued existence of the government. "If," said he, "it be held by this court that Congress has no constitutional power, under any circumstances, or in any emergency, to make treasury-notes a legal tender for the payment of all debts (a power confessedly possessed by every independent sovereignty other than the United States), the government is without those means of self-preservation, which, all must admit, may, in certain contingencies, become indispensable, even if they were not when the Acts of Congress now called in question were enacted. It is also clear that if we hold the Acts invalid as applicable to debts incurred, or transactions which have taken place since their enactment, our decision must cause, throughout the country, great business derangement, wide-spread distress, and the rankest injustice."

In the non-enumerated powers of the constitution authority was expressly given "to make all laws which shall be necessary and proper for carrying into execution the specified powers vested in Congress." Were the legal-tender laws, "when enacted, appropriate instrumentalities for carrying into effect, or executing any of the known powers of Congress, or of any department of the government?" Judge Strong then briefly set forth the condition of the country when Congress attempted to make treasury-notes a legal tender. "Now," he continued, "if it were certain that nothing else would have supplied the

absolute necessities of the treasury, that nothing else would have enabled the government to maintain its armies and navy, that nothing else would have saved the government and the constitution from destruction, while the legal-tender Acts would, could any one be bold enough to assert that Congress transgressed its powers? Or, if these enactments did work these results, can it be maintained now that they were not for a legitimate end, or appropriate and adapted to that end, in the language of Chief Justice Marshall? That they did work such results is not to be doubted."

The next step in the argument was important, especially in view of a subsequent determination by the same court. "If it be conceded that some other means might have been chosen for the accomplishment of these legitimate and necessary ends, the concession does not weaken the argument. . . . Can this court say that it ought to have adopted one rather than the other? Is it our province to decide that the means selected were beyond the constitutional power of Congress, because we may think that other means to the same ends would have been more appropriate and equally efficient? That would be to assume legislative power, and to disregard the accepted rules for construing the constitution. The degree of the necessity for any congressional enactment, or the relative degree of its appropriateness, if it have any appropriateness, is for consideration in Congress, not here."

Judge Strong did not intend, nor did Judge Bradley, so Reverdy Johnson thought,¹ to decide that the Act would justify the issuing of legal-tender notes in a time of peace. Mr. Johnson was one of many persons in so thinking. When Senator

¹ Letter in N. Y. Tribune, Aug. 14, 1875. See ex-Gov. Dix's letter to Mr. Johnson on the subject, N. Y. Times, Sept. 18, 1875.

Sherman reviewed the opinion of the chief justice a few months after its delivery, criticising it severely, he added, "It must be remembered that the legal-tender clause was justified only by the exigencies of war. It was not intended as a measure of peace. The legal tenders were only the instruments of battle; they were musketry and cannon; and when peace came, they should have been rapidly retired." And on another occasion he said that the necessity for issuing them had "long since ceased. There can be no pretence that as to future contracts there is any necessity that the public credit should take the place of real money."

These reflections on the last opinion of the court culminated in the trial of another case¹ involving the question whether Congress possessed authority to issue legal-tender notes in time of peace.² When the supreme court answered it nine judges were on the bench and only one dissented.

After quoting from the constitution those clauses which grant authority "to lay and collect taxes, to pay the debts and provide for the common defence and general welfare of the United States," and, "to borrow money on the credit of the United States, and to coin money and regulate the value thereof and of foreign coin," and after showing that as incidental to the exercise of those great powers to emit bills of credit, to charter national banks, and to provide a national currency for the whole people in the form of coin, treasury-notes and national bank-bills, "and the power to make the notes of the government a legal tender in payment of private debts being one of the powers belonging to sovereignty in other civilized nations, and not expressly withheld from Congress

¹ *Juilliard vs. Greenman*, 110 U. S. Sup. Ct., p. 421.

² See Spaulding, Introduction to 2d Ed., p. 13.

by the constitution, we are irresistibly impelled to the conclusion," said Judge Gray, who delivered the opinion of the court, "that the impressing upon the treasury-notes of the United States the quality of being a legal tender in payment of private debts is an appropriate means, conducive and plainly adapted to the execution of the undoubted powers of Congress, consistent with the letter and spirit of the constitution, and therefore within the meaning of that instrument necessary and proper for carrying into execution the powers vested by this constitution in the government of the United States."

"Whether at any particular time," added the court, "in war or in peace, the exigency is such, by reason of universal and pressing demand on the resources of the government, or of the inadequacy of the supply of gold and silver coin to furnish the currency needed for the uses of the government and of the people, that it is, as a matter of fact, wise and expedient to resort to this means, is a political question, to be determined by Congress when a question of exigency arises,¹

¹ The Nation remarked, when the dissenting opinion of Judge Miller, in *Hepburn against Griswold*, was delivered, "On the point whether Congress or the courts have the right of deciding what means are necessary and proper for the exercise of the war power, we suspect most people will agree with us in thinking that Judge Miller had the best of the argument. Society has become such a complicated machine; its interests are so vast and varied, and delicate; the influences which affect them so numerous and difficult of comprehension, and wars have become so largely contests of money, machinery, and scientific skill that there is probably no more difficult problem submitted to the human mind in our day than the best means of bringing into play the whole of a nation's power of offence and defence. How to raise armies in a modern commercial community without fatally deranging industry; how to get money to support them without plunging business into confusion and disheartening the people, at a crisis when everything depends on the people's keeping up its courage, are problems now

and not a judicial question, to be afterward passed upon by the courts." Is this decision final? We have seen how speedy was the transformation of the court which looked unfavorably on the legal-tender legislation into a court which looked on it with favorable eyes. The planet rolls, and all thereon and therein changes, and human institutions and decisions are made, and change, and pass away. The decisions rendered by the higher court of our country are stamped with some permanence, compared with many of the opinions and utterances expressed around them, but even these change from generation to generation, as the reasons on which they are founded, weaken or wholly disappear. Other causes, too, contribute toward the change. Judicial decisions are annually swept away by legislative enactments. Politics sometimes spreads a baneful shadow over courts, and darkens the stream of judicial decision, like branches overhanging the water. What may be the outcome of this decision is hardly worth while to prophesy. It may stand for ages, the monument of a wisdom more consummate than was realized, either by the judges who spoke, the parties immediately affected, or the people who listened, or it may be reversed at a later day by the same court, reflecting and recording just as clearly that unwritten opinion of the people, who, in every country, and in every age, form the supreme tribunal by which every question is finally tried and determined.

which include nearly the whole art of government. There is no way of submitting them to the decision of a court of law; a court which was competent to pass on them would no longer be a court."—Feb. 17, 1870.

CHAPTER II.

RESUMPTION OF SPECIE PAYMENTS.

WHEN specie payments were suspended in December, 1861, the event was as unwelcome as unexpected, and every one believed that they would speedily be resumed on the return of peace, notwithstanding the example of Great Britain, which delayed for seven years after Waterloo was fought. Twice as many years were to pass after the close of the civil war before the government redeemed its promises, and not until death had taken the most prominent character in the financial history of the time, and who, if unintentionally powerful in causing their suspension, would have rejoiced all the more in the return to an honest money and the restoration of the national honor.

When the war closed Mr. McCulloch was at the head of the treasury department. He had succeeded Mr. Fessenden at the opening of President Lincoln's second term. Five days after assuming office he remarked, in a speech to the heads of the bureaus when they were presented to him: "My chief aim will of course be to provide the means to discharge the claims upon the treasury at the earliest day practicable, and to institute measures to bring the business of the country gradually back to the specie standard, a departure from which, although for the time being a necessity, is no less damaging and demoralizing to the people than expensive to the govern-

ment.”¹ Thus early did he announce his policy, from which he never wavered. Not long afterward he addressed a public meeting in Fort Wayne, Indiana, at which he said, “I have no faith in a prosperity which is the effect of a depreciated currency, nor can I see any safe path for us to tread but that which leads to specie payments. We have a circulating medium altogether larger than is needed for legitimate business; the excess is used in speculation. The longer the inflation continues the more difficult will it be for us to get back to the solid ground of specie payments, to which we must return sooner or later. If Congress shall early in the approaching session authorize the funding of legal-tender notes, and the work of reduction is commenced and carried on resolutely, but carefully and prudently, we shall reach it probably without serious embarrassment to legitimate business; if not, we shall have a brief period of hollow and seductive prosperity, resulting in wide-spread bankruptcy and disaster.”

These utterances of the secretary immediately spread over

¹ April 4, 1865, he wrote to Henry C. Carey: “You will perceive by the statement of the condition of the treasury on the 1st instant that the government circulation has not been diminished. Whether, or to what extent, this circulation will be reduced, depends upon circumstances that cannot now be clearly foreseen. I have been, and still am of the opinion, that it must be curtailed before a return to specie payments can be effected; but it cannot be denied that the course of the market for the past month has been such as to justify a reconsideration of the opinions which have been so generally entertained in regard to the inflation of the currency. The increased demand for money, which is the result of the diminution of individual credits, may not have been fully estimated; and it may turn out that no considerable reduction of paper circulation will be needed for the restoration of the specie basis. At all events, the government will have no interest in retiring its direct issues if the desired object can be obtained within a reasonable time without it.”—1 *In. Rev. Record*, p. 123.

the country, and were warmly endorsed by boards of trade and similar organizations, and the press. The President, too, in his annual message, strongly sustained the secretary. Those who feared that he might not be in accord with Mr. McCulloch on this great question were relieved when he declared that it was our first duty to prepare in earnest for our recovery from the ever-increasing evil of an irredeemable currency without a revulsion, and yet without untimely procrastination. "To aid our fellow-citizens in the prudent management of their monetary affairs, the duty devolves on us to diminish by law the amount of the paper money now in circulation. Five years ago the bank-note circulation of the country amounted to not more than \$200,000,000; now the circulation, bank and national, exceeds \$700,000,000. The simple statement of the fact recommends more strongly than any words of mine could do the necessity of our restraining this expansion. The gradual reduction of the currency is the only measure that can save the business of the country from disastrous calamities; and this can be almost imperceptibly accomplished by gradually funding the national circulation in securities that may be made redeemable at the pleasure of the government."

In Mr. McCulloch's report, which was made public simultaneously with the President's message, large space was devoted to the subject of resuming specie payments. "The issue of United-States notes as lawful money was a measure expedient doubtless, and necessary in the great emergency in which it was adopted," but which no longer existed. He did not recommend the immediate repeal of the legal-tender laws, because such a course "would be unwise" and "likely to affect injuriously the legitimate business of the country." As the interest-bearing legal-tender notes "were intended to be a

security rather than a circulating medium," the secretary recommended Congress to declare that after their maturity they should cease to be a legal tender, because "such a declaration would aid the government in its efforts to retire them," and "would be neither injurious to the public nor an act of bad faith to the holders."

The objections to reducing the amount of the currency were stated and answered by the secretary, and may be as fitly considered at the outset of this chapter as at any other place. The first objection was that prices would be reduced, and this effect would be injurious, if not disastrous, to trade, and quite likely precipitate a financial crisis. To this objection the secretary replied, that prices of articles of indispensable necessity were already so high as to be severely oppressive to consumers, especially to persons of fixed and moderate incomes, and to the poorer classes. Not only the interest, but the absolute necessities of the masses required that the articles needed for their use should decline. With respect to trade, no reason existed for apprehending that Congress would adopt any policy that would cause so rapid a reduction of prices as to produce embarrassment. Moreover, a return to specie payments would not bring prices back to those of former years. On the other hand, the longer contraction was deferred the greater must the fall eventually be, and the more serious the consequence.

To the objection that a contraction of the currency would reduce the public revenue, the secretary admitted that "this might be the immediate effect, but it would be temporary only." That the proposed policy of contraction would endanger the public credit by preventing funding, was an objection for which Mr. McCulloch could perceive no sub-

stantial ground. He could not understand how the process of funding was likely to be aided by the continuance of prices on their present high level, or how the credit of the government was to be restored by the perpetuation of an irredeemable currency.

He next considered the objection that such a policy would compel the government and the people, who were in debt, to pay in a dearer currency than that in which their debts were contracted. "So far as individual indebtedness is regarded," said the secretary, "it may be remarked, that the people of the United States, if not as free from debt as they were six months ago, are much less in debt than they have been in previous years, and altogether less than they will be when the inevitable day of payment comes around, if the volume of paper money is not curtailed. A financial policy which would prevent the creation of debts, and stimulate the payment of those already existing, so far from being injurious, would be in the highest degree beneficial." Such was the answer of the secretary to this objection. It certainly was not very satisfactory, but, perhaps, a better one could not be made. This was, in truth, the weightiest of all objections to improving the value of the currency. During all the years of suspension this was the one on which the opponents to a return to the former system most securely built their arguments. They believed that a reduction of the currency meant lower prices, and this, in turn, enhanced the difficulty of debt-paying. If a farmer owed a thousand dollars, it was easier for him to get the money to pay his debt, if he sold his wheat for one dollar and a half per bushel than if he sold it only for one dollar. Nothing could be clearer. To reduce the currency and diminish prices meant bankruptcy to many, and debt-paying

more difficult. In diluting the currency a vast amount of property was transferred from the creditor to the debtor without an equivalent; so in the appreciation of the currency a vast amount would be transferred from the debtor to the creditor without an equivalent if the debts were subsequent to inflation. The getting of means to carry on a war by the issue of a forced currency is a tax of the most serious kind. The creditor pays a portion of it in the way of receiving less for his debt than he loaned. While the currency is undergoing the process of inflation, or depletion in value, merchants often charge more for their goods to cover losses by the change, which is paid by purchasers, and another portion of the tax is finally paid by the debtor class when the currency improves in value and prices decline. The entire tax is tremendous. The debtor class clearly seeing the larger burden they would be obliged to bear if the volume of currency were contracted and prices declined, stubbornly opposed contraction. It is true that many old debts had been paid during the war, but many had not, while new ones had been contracted, and the people individually and in a corporate capacity, and especially many of the municipal corporations and the States of the Union, were far more deeply indebted than on the day of suspending payments.

Two more objections were stated and answered by the secretary, to which a short space may be given. The first was that a reduction of the government-notes would embarrass the national banks, if it did not force them into liquidation. To this he replied that it was better that the banks should be embarrassed than bankrupted hereafter. Their business and customers were then under control. What would be their condition in these respects if the expansion continued a

year or two longer it would not be difficult to predict. The conservative banks of the country, whatever might be said of the others, unanimously favored curtailment of the currency with a view to an early return to specie payments.

The other objection was, that contraction by reducing exports and increasing imports would reduce the rate of foreign exchange. It was doubtless true, said the secretary, that a high rate of exchange did, for a time, increase the exportation of our productions and diminish the importation of foreign articles, but this advantage was much more than counter-balanced by the largely increased expenses of the government and of the people, resulting from the very cause that produced the high rate of exchange. Besides, this apparent advantage no longer existed. The advance of prices in the United States, notwithstanding the continued high rate of European exchange, was now checking exports and inviting imports, and creating a balance in favor of Europe that was likely to be the greatest obstacle in the way of an early resumption of specie payments.

The secretary, therefore, recommended Congress to declare that the compound-interest notes should cease to be a legal tender from the day of their maturity, and also to authorize him to sell bonds of the United States, bearing interest at six per cent or a lower rate, and redeemable and payable at the convenience of the interest of the government, for the purpose of retiring the compound-interest, and United-States notes.

The secretary then added, that the "process of contraction can not be injuriously rapid; and that it will not be necessary to retire more than one hundred, or, at most, two hundred millions of United-States notes, in addition to the compound notes, before the desired result will be attained. But neither the amount of reduction, nor the time that will be required to

bring up the currency to specie standard, can now be estimated with any degree of accuracy. The first thing to be done is to establish the policy of contraction. When this is effected, the secretary believes that the business of the country will readily accommodate itself to the proposed change in the action of the government, and that specie payments may be restored without a shock to trade, and without a diminution of the public revenues, or of productive industry."

The House shortly afterward passed a resolution almost unanimously concurring in the views of the secretary of the treasury, concerning the necessity of contracting the currency, with a view to as early a resumption of specie payments as the business interests of the country would permit, and pledged "co-operative action to this end as soon as practicable." On the 1st of February, the Committee of Ways and Means reported a bill authorizing the secretary of the treasury to receive treasury-notes or other obligations, whether bearing interest or not, in exchange for bonds. He could sell them in the United States or elsewhere without limitation in amount or rates for lawful money, treasury-notes, certificates of indebtedness, or on deposit of other representatives of value. The bill was an amendment to an Act passed on the last day of the previous session.

A long and warm debate followed. Mr. Morrill began it by saying that the present bill was "but a patch on an old garment." The Act of March 3d, 1865, to which this was an amendment, authorized the funding of interest-bearing obligations, and that authority was expanded by the present bill by including the non-interest-bearing obligations. The new bill conferred large powers, but they were all confined to exchanging a short debt for a long one, or to the conversion

of an old debt into a new one, when that could be done to our advantage. Our whole debt could not be increased under the new bill a single dollar. "Those who fear rash attempts at an early resumption of specie payments," he continued, "should be quieted; it is simply impossible to take at once any very long strides in that direction. This is a process only to be successfully accomplished by gradual and persistent effort. Only while currency is plentiful and cheap is it any object to exchange it for bonds; make it scarce and dear and it will not be done.

"It is true that some hostility to a return to specie payments is manifested in certain quarters. It is to be expected. Any system proposed by the secretary of the treasury, or any bill proposed by Congress not exhibiting facilities by which the money-changers may continue their rapid gains, will meet with noisy clamor on the pretence of injury to the general interests of trade and commerce, and will be dexterously thwarted unless we place the secretary where, to use those terms which military operations have made familiar, he will be master of the situation; that is to say, to fund all of our matured indebtedness and debts soon to mature at lower rates of interest than what we are now paying, and with longer periods of time for payment."

Mr. Hooper, of Massachusetts, sustained the bill. His speech was perhaps the strongest delivered on the subject, though Mr. Wentworth's, of Chicago, was vigorous and contained far more than the usual quantity of historical information for the regulation congressional speech. Mr. Hooper had thoroughly studied the principles and history of money, and had written several elaborate monographs, which were favorably regarded by those who professed to know most about

the subject. He had been a successful Boston merchant, and was one of the earliest members of Congress to favor the issue of legal-tender notes, and the creation of the national banking system. On this occasion he said that "whatever differences of opinion may exist in regard to what had been done, no one could doubt now, the war being ended and the government having ceased to be a borrower of money, that the important question to be considered was how to restore the currency to a sound and stable condition at the earliest practical time with the least possible disturbance of the values of property and of the substantial interest of the industry of the country." He then declared that "the only honest and practical way in which the paper money of the country can be restored to a sound condition, and made equal in value to the money of other countries with which we are connected by commerce, is by a gradual reduction of its amount until what remains shall circulate as the equivalent of coin, and can be converted into coin at the option of any holder. As soon as the contraction of the amount of legal-tender notes is commenced in earnest, and no other paper money allowed to be substituted for it, the premium on gold will decline and foreign exchanges will be in our favor. If the public understand and believe that the contraction is to be continued until the paper money remaining in circulation, whether issued by the government or by the banks, is at par with coin, the export of specie will cease, the product of our gold and silver mines will be retained in the country, and gold will be imported from Europe. Whenever the paper money is at par with coin, both will then circulate together again and constitute the money of the country."

Mr. Kelley, of Pennsylvania, maintained that contraction

was not the way to resume specie payments. It was the way, "after a brief struggle by a double-quick march, to bankruptcy." There was another and better method of resumption. "Promote the development of our resources and stimulate our industry by repealing taxes to the amount of one hundred and fifty or two hundred million dollars per annum, promote the recuperation of the South, and give employment to the discharged soldiers of the North," and he prophesied that "at the end of five years you will find the specie-owning citizens of the country will have bought from the banks their bonds, and the bullion-owning citizens of the country will have deposited in the banks specie; at any rate, at the end of ten years the process of fostering our industries, developing our resources, and retaining in the country some of our vast mineral wealth, will bring us to the resumption of specie payments naturally, and without disturbing any branch of business."

Mr. Wentworth, who strongly favored the bill, when delivering his speech, quoted from a letter written by "one of the oldest and wealthiest bankers" in the country, which correctly reflected the opinion of the national banks on this question. "Pay no attention," said the writer, "to outside pressure so far as the national banks are concerned. We have paid for no pamphlets, no money articles in newspapers and no lobby. It is the speculator, the shoddies, the lame ducks, that are belaboring Congress. The national banks will be ready for specie payments as soon as the secretary of the treasury is. Give him a good strong bill, and have no fears. He can not afford to quarrel with solvent banks, nor they with him. There is no way to separate their legitimate interests."

Mr. Wentworth remarked that one class of men were "lob-

bying against specie payments that surprised him very much,"—the importers. They knew that unredeemable money begot extravagance, and that men who became suddenly rich by speculating on other people's necessities at once outgrew the plainness of American manufactures. The suddenly rich, especially if they were illiterate, were the best patrons of importers. "Such persons rejoiced in diamonds and laces, can drink no liquors without a certificate of their importation, and always travel in their best clothes, fresh from a foreign market. These importers think that a bloated currency bloats the fashions."

Mr. Boutwell thought that the course of things ought to go on without active interference. In the natural development of events we should resume specie payments as early as was convenient to the business interests of the country. He believed, while we should not increase our circulation, that we should wait until another harvest had been gathered in, and until the results of that harvest had been made a part of the convertible property of the country before any legislation should be attempted in the way of enforcing specie payments. In other words, Mr. Boutwell desired that the government, like Horace's peasant, should wait on the bank of the river until it passed away before crossing. Had the government done so, we fear that it would have waited permanently; for the paper money, like the river so gracefully described by the Roman poet, would have continued to flow for ever, though with increasingly destructive power.

The debate revealed a strong opposition to the negotiation of bonds abroad, and stronger yet to granting the secretary so much authority to contract the currency. The bill was amended during the debate by withdrawing authority to sell

the bonds abroad and make them payable in the currency of foreign countries and afterward recommitted. When again reported, the committee offered as a proviso, "of United-States notes not more than ten millions may be retired and cancelled within six months from the passage of this Act, and thereafter not more than four millions in any one month."

At the time of reporting this amendment, Mr. Morrill read a letter from the secretary of the treasury, in which he stated in the clearest language the vast importance to the interests of the country, the welfare of the people, and the credit of the nation of adopting such a financial policy as would prepare the way for a return to specie payments. When this could be brought about would depend on the condition of national industry and the trade relations between the United States and foreign nations. The secretary added, "the apprehensions which exist that if power is given to the secretary to retire United-States notes the circulation of the country would be ruinously contracted is without any substantial foundation. If no reliance can be placed on the discretion and carefulness of the secretary, the very condition of the finances of the country will present such a reduction of the currency as will make either a tight money market or a depressed business. Authority to reduce the currency will go very far to prevent the necessity for a reduction."

As thus amended, the bill passed the House by a vote of eighty-three to fifty-three, forty-seven members not voting.

The Finance Committee of the Senate reported the bill without amendment. The principal opponent was Mr. Sherman, who did not perceive the necessity of conferring on the secretary of the treasury "the vast powers" mentioned in the

bill. If the proviso restricting the powers of the secretary to contract the currency would accomplish the purpose designed by the House, he would cease all opposition ; but he knew it would not, for the very obvious reason that there was no restraint upon the power of the secretary of the treasury to accumulate legal-tender notes. He might retire two hundred millions of legal-tender notes by retaining them in his possession without cancellation, or sell bonds for legal tenders and hold these in his vault, thus retiring them from the business of the country. He might, therefore, without violating the terms of the bill, contract the currency according to his own good-will and pleasure. "My own impression is," added Mr. Sherman, "that the secretary of the treasury, in carrying out his known policy, will do so. I believe he will contract the currency in this way." He had, at that time, in the treasury \$60,000,000 in currency, and \$62,000,000 in gold, a larger balance than had ever been kept until a very recent time. "What is the object in accumulating these vast balances?" inquired the senator. "Simply to carry out his policy of contraction. With this power of retaining in the treasury the money that comes in, what does he care for the limitations put upon this bill by the House of Representatives?" Nevertheless, only six senators voted with Mr. Sherman, his colleague, the Michigan and Minnesota senators, and Mr. Howe, of Wisconsin.

The bill passed the Senate as reported;¹ thus was moulded into legislation Mr. McCulloch's plan for retiring the currency and preparing for specie payments. It was objected that the Act would make a wider separation between the greenbacks and the bonds, and that the better way would be to restore

¹ Act, April 12, 1866, 39 Cong., first session, chap. 39.

the original section, which provided for funding the legal-tender notes into bonds. Senators Sherman and Chandler sought to engraft that provision into the bill, but failed. Congress, while providing for funding all the interest-bearing notes into bonds, adopted the policy of contraction for retiring the greenbacks from circulation. Thus the law provided for satisfying the bondholder, but left the holders of the greenback in much uncertainty. Mr. Sherman afterward said in the Senate, that "if this Act had contained a simple provision restoring to the holder of the greenback the right to convert his note into bonds, there would have been no trouble. Why should it not have been done? Simply because the secretary of the treasury believed that the only way to advance the greenbacks was by reducing the amount of them; that the only way to get back to specie payments was by the system of contraction. If the legal-tender notes could have been wedded to any form of gold bond by being made convertible into it, they would have been lifted by the gradual advance of our public credit to par in gold, leaving the question of contraction to depend upon the amount of notes needed for currency."¹

The interest-bearing notes during the year ceased to circulate. As they were a legal tender, they could be used as a lawful reserve for the banks, and were thus used from the beginning, crowding a similar amount of legal-tender notes into circulation. As the banks took out more and more circulation, and increased their deposits, they were obliged to hold a large amount of legal-tender notes as a reserve, which had quite the same effect as would the keeping of them in the vaults of the treasury. They also held a large amount of com-

¹ Speech in Senate, Jan. 16, 1874. Speeches, p. 419.

pound-interest notes which would soon mature. To provide for their payment the issue of \$50,000,000 of three-per-cent certificates was authorized, payable on demand in lawful money.¹ Although the reduction of the legal-tender notes continued during the year, so far as the new certificates displaced notes which had been kept as a reserve there was no diminution in the quantity of circulation. The aggregate amount of interest-bearing notes decreased rapidly.

The secretary continued to reduce the legal-tender notes, though not with regularity. When Congress convened in December, 1868, a considerable stringency existed in the money market. The price of commodities had declined, and opposition to further contraction was loud and general.²

¹ March 2, 1867.

² Mr. McCulloch wrote, in August, 1875: "Every business man knows that there are seasons of the year in which large curtailment of a redundant currency can be made without disturbing the business of the country, while at other seasons small curtailments may produce injurious effects. I give it as my mature judgment that if the secretary had been unrestricted in regard to the time and amount of the withdrawal of the legal-tender notes from circulation, and the publication of the monthly reports had been discontinued, a hundred millions of these notes might have been retired in the course of a year, without the people being the wiser for it or business being deranged by it." He then related the following incident: "During a temporary stringency in Wall street, the sub-treasurer in New York, Mr. Van Dyck, expressed his apprehensions that if the next monthly statement showed that the usual curtailment had been made a panic would occur. Deeming it wise to give heed to the warning he sent for General Spinner, the U. S. treasurer, and said: 'General, our friends in New York advise me that there will be a panic in Wall street if your next statement shows that the usual monthly curtailment has been made. You have the four millions for cancellation on hand, and have no occasion to use them. The law only authorizes their cancellation; it does not require it. Let them remain where they are, so that your statement will show them to be cash on hand,

Secretary McCulloch evidently feared that his policy was about to be overthrown. He had hoped at one time that Congress would fix that year for resuming specie payments ; the event was not to come in his administration.

His report contained his last great argument for an honest money and for keeping the public faith. The opposition to contraction made a decisive impression on Congress, and in February of the next year the secretary's authority to retire legal-tender notes was suspended. The amount in circulation was \$356,000,000. At the close of that fiscal year only \$28,000,000 of compound-interest notes remained unpaid ; the amount of three-per-cent certificates, however, had been increased to \$75,000,000.¹

The bill to suspend the retiring of the legal-tender notes was reported to the House by Mr. Schenck, chairman of the Committee of Ways and Means, on the 5th day of December,² and was recommitted. Two days afterward it was reported back with the unanimous approval of the committee, who demanded the previous question on the passage of the bill. No debate was permitted. Mr. Garfield told the chairman if he would allow "four hours for the discussion of this great financial question," those opposed to the bill would be content. The opponents of the bill tried to offer an amendment limiting the time for suspending contraction until the 1st of May, but

and not notes withdrawn from circulation.' This course was pursued, and although the four millions had been actually retired and were never to see daylight again, except to be counted and burned, the report at the end of the month indicated that the depleting hand of the secretary had been stayed. Wall street was at once in good humor again, and the operators for a rise were relieved."—*N. Y. Tribune*.

¹ July 25, 1868.

² 1867.

Mr. Schenck would not give way for amendments. No opportunity, therefore, was given, either for debate or for amendment, and so the bill immediately passed by a vote of one hundred and twenty-seven to thirty-two, twenty-eight not voting.

In the Senate the bill was debated at some length, though its passage was certain from the first. Only four voted against it.¹ Mr. Sherman was the chief supporter of the bill. The secretary had not redeemed any notes for a considerable period, and had announced that he should not continue the policy of contraction so long as the business of the country remained in its present condition. There was no need of passing the bill; nevertheless, Mr. Sherman favored it because the public would be assured that no further contraction could take place. From all parts of the country complaints were heard of depression and paralysis in business, and many of those who suffered were certain that contraction of the currency was the cause. Without considering the reserve held by the banks, the currency had been contracted \$142,439,958.

On the 31st of March, 1866, the amount of outstanding legal-	
tender notes was	\$422,424,007
One- and two-years' treasury-notes	11,397,870
Three-years' compound-interest treasury-notes	179,001,301
Old demand-notes	325,245
Fractional currency	28,068,952
National bank circulation	248,880,000
State bank circulation	32,800,865
The total amount	<u>\$922,898,241</u>
The amount of bank reserve held	<u>193,543,649</u>
Total in circulation	<u><u>\$729,354,592</u></u>

¹ Act, Feb. 3, 1868, 40 Cong., second session, chap 5.

On the 31st of December, 1868, the amount of legal-tender

notes outstanding was	\$356,000,000
Three-years' compound-interest notes	94,093,830
Old demand-notes	159,127
Fractional currency	31,735,783
National bank circulation, Jan. 6	294,377,390
State bank circulation	4,092,153
The total amount	<u>\$780,458,283</u>
Bank reserve	<u>167,960,366</u>
Total in circulation	<u>\$612,497,917</u>

To what extent the payment or conversion of the five-per-cent treasury-notes, which were due in December, 1865, and the compound-interest and 7.3 treasury-notes, which were due two and three years later, and aggregated in amount \$1,035,-548,042, contracted the circulating medium is an unsettled question.¹ When Mr. Morrill, in 1866, included \$154,926,910 of compound-interest notes in "the amount of circulating currency," Mr. McCulloch criticised him, saying, that if he intended to convey a true idea of the amount of paper currency really in circulation, and which directly operated to cause high prices, he made a serious mistake in including compound-interest notes as forming part of the circulating medium. Five-twenties and Erie stock might as justly have been included. Neither affected the volume of currency less than did the compounds, the price of which ranged above one per cent premium with the accrued interest. They were sought for investment, and there was probably not a single note that was then used as currency. Several years afterward, Mr. McCulloch wrote, "It is undoubtedly true that all these temporary securities, when first issued, did, to some extent, swell

¹ Resumption of Specie Payments, Mis. Doc., 45 Cong., second session; Views before Com. on Banking and Currency, 1874.

the volume of currency, but this was when enormous sums were required for the payment of soldiers and other creditors of the government. The fact that all of them were paid, or funded, at or before maturity, without any complaints of contraction, proves conclusively that whatever purposes they may have subserved in 1864, and the early part of 1865, they were so held, long before they were retired, that their payment or conversion into bonds in no manner affected the money market."¹

In 1870² the banks were authorized to increase their circulation to the amount of fifty-four millions. As, however, an equivalent amount of the temporary loan certificates were to be redeemed, the road to specie payment was not changed by that event. In October of that year, Mr. Boutwell, who had succeeded Mr. McCulloch at the opening of President Grant's administration, issued \$1,500,000 legal-tender notes to relieve a stringency in Wall street. He was silent on the subject in his annual report. Others, though, were not, and his course was not generally approved. The gamblers in Wall street, who were relieved by the unexpected supply of money, were delighted, while the injured were shocked by Mr. Boutwell's conduct. A long observance of the high moral code by which they had conducted their unlawful business had rendered them very sensitive to every kind of public interference with it. This occasioned no surprise, for in all ages and countries criminals have disliked law and halters. On either of these two classes, therefore, there was not the slightest reason for wasting sympathy, and it was a new and humiliating spectacle for the secretary of the treasury in his official

¹ Oct. 3, 1878. N. Y. Tribune.

² Act, July 12, 41 Cong., second session, chap. 252.

capacity to go to the relief of a party of gamblers. This was bad enough, but not the worst. The people began to realize clearly what a dangerous thing was a national currency, if the head of the treasury department had any authority or control over the expansion or contraction of it. Congress, however, took no decisive action about the matter. The next year Mr. Boutwell issued a larger amount, \$4,637,256. The fire of public disapproval on him then was so well directed that he returned \$3,481,541, and his successor speedily retired the remainder. Mr. Boutwell, having been elected to the Senate, was succeeded¹ by the first assistant secretary of the treasury, Mr. Richardson, also of Massachusetts. Hardly had Mr. Boutwell retired when a financial cyclone struck the country.² Prices suddenly went down, great houses failed, Wall street raged like a maelstrom. The new secretary was besought to come to the rescue. He did so, issuing more legal-tender notes in payment of bonds purchased.³ In his report he defended himself for issuing them on the ground that "Congress had authorized during the war the issue of \$400,000,000, beside \$50,000,000 if needful, to pay the banks and others who had temporarily deposited money with the government, and that although the currency had been contracted under the law of March, 1866, to \$346,000,000, yet the law authorizing the issue of the maximum of \$400,000,000, had never been repealed." In view of the uncertainty which existed in public sentiment about the right of the secretary of the treasury to

¹ March 17, 1873.

² See Horace White's account of the panic, 26 *Fortnightly Rev.*, p. 810.

³ He telegraphed to the President, Sept. 24, "If you concur, I would limit the amount to about \$12,000,000. I do not think it is well to undertake to furnish from the treasury all the money that frenzied people may call for."

issue United-States notes in excess of the minimum of \$356,000,000,¹ he recommended Congress to settle the question by a distinct enactment. "Until that is done," he said, "whenever there is a stringency in the money market there will continue to be a pressure upon the treasury department, by those who favor a policy of expansion, to increase the issue of notes to the maximum, by the purchase of bonds or otherwise; while, on the other hand, those who conceive that the public interests will be better served thereby will bring equal pressure to keep the issue down to a minimum." In his opinion it was unwise to require the amount in actual circulation to be above the present minimum.²

Congress acted. On the 23d of March, the House voted on three propositions. The first fixed the amount of the legal-tender notes at \$356,000,000, which was voted down by a large majority, and by a nearly similar vote the second proposition, which fixed the amount at \$382,000,000, the amount then outstanding, Mr. Richardson having increased the amount \$26,000,000. The third proposition prevailed, which fixed the amount at \$400,000,000. The action of the secretary did not cause so much discussion in Congress as elsewhere. The inflationists approved and those who favored resumption condemned his course. The country was in the throes of hard times; many had failed, many more were financially crippled. Debtors were in favor of stopping con-

¹ Pres. Grant said, in his message vetoing the inflation bill: "The forty-four millions have ever been regarded as a reserve, to be used only in case of emergency, such as has occurred on several occasions, and must occur when, from any cause, revenues suddenly fall below expenditures."—April 22, 1874.

² Senate Report, No. 275, 42 Cong., third session.

traction and of issuing more money,¹ believing that such a policy would result in advancing prices and in lessening their burden. Nor were they mistaken. When it is remembered how heavy their burden was, and how it constantly increased after the panic of 1873 for six anxious years, should any one wonder why the way toward specie payments was traveled so slowly?

Remembering these things, it is easy to explain why such a strong feeling existed in Congress against contraction,—which fairly reflected opinion outside,—and why, having a strong belief in the magical power of paper money to restore prosperity, a mighty effort was made to increase the volume of money. Many of the members of Congress were business men, and some of them were embarrassed, or feared that they or the concerns in which they were interested would be. They wanted more money, confident that it would relieve the pressure. It is not our purpose to find out whether they were right or wrong; they strongly entertained their opinions and were daily receiving letters from their constituents, and others from all parts of the country, begging for a further issue of money. They had a vivid recollection of the good times during the war, when money had innumerable wings, and they were sanguine that an increase would produce an exhilarating effect. Had not the issue of a few millions of treasury-notes by the secretary of the treasury a short time before stayed or assuaged the panic? Most of this confidence sprang from the debtor and depressed classes, who wanted more money not with so much hope of making fortunes, as of extricating themselves from embarrassment and impending bankruptcy. Whether contraction was the untoward cause of blighting their fortunes

¹ See House Report, No. 323, 43 Cong., second session.

or not, they could clearly enough see how much more likely they were to extricate themselves from the meshes of their indebtedness by selling their products at an advance, than at the existing or lower prices. Such was the basis of the movement to expand the currency during the session of 1873 and 1874, the first formal expression of which was the passage of the bill by the House fixing the amount of legal-tender notes at \$400,000,000.

The subject was introduced into the Senate by Mr. Wright, of Iowa, whose bill was referred to the Finance Committee, and who reported a substitute which, among other things, fixed the amount of legal-tender notes at \$382,000,000. This was debated at great length; meanwhile, the Committee on Banking and Currency had reported a bill to the House which provided for free banking. The two houses now engaged in an elaborate discussion of the currency, ploughing and cross-ploughing the ground in every direction. Hardly a fresh thought was turned in this long and humiliating debate, but the general interest in the subject was extraordinary. It was believed by many that Congress could speedily end the depression by applying the true remedy; moreover, these believers knew what it was and offered it without price. Had all of them offered the same remedy, Congress and the country might have had more confidence in it; in truth, the number of remedies offered was truly marvelous; the financier suddenly appeared everywhere, and, maturing his plan for curing the existing ills at a single sitting, forthwith sent it to Washington, with the request to a member to introduce it into Congress. Of course, the request was heeded. We must give space for the briefest mention of them, if no more. They were to establish a uniform and elastic currency, and to reduce the interest on the

public debt ; to prohibit banks from receiving or paying interest on current deposits ; to improve the currency and reduce the interest on the debt ; to authorize free banking with practical redemption ; to authorize the secretary of the treasury to loan United-States notes on government bonds. Representative Randall introduced four bills relating to the payment of interest on deposits of money with national banks, certifying checks and other matters ; General Butler to make the volume of currency self-adjusting according to the wants of the people ; and Mr. Clark, of New York, a bill to provide a currency of coin and paper of equal and uniform value throughout the United States. Other bills were for allowing banks to circulate notes equal in amount to bonds, and to substitute for their present reserves 3.65 currency bonds ; to give flexibility to the currency without inflation, and to legalize a reserve of \$44,000,000 and render the same available for the relief of extraordinary financial pressures ; to establish free banking ; to fix the maximum of United-States notes and to provide for their redemption ; for free banking and the resumption of specie payments ; to increase the issue of national bank-notes and provide for the ultimate resumption of specie payments ; to facilitate the resumption of specie payments and prevent fluctuation in the value of United-States notes ; to authorize the collection of twenty per cent of the duties on imports in legal-tender notes ; to establish free banking, reduce the interest on the bonded indebtedness of the United States, and to retire legal-tender notes ; to provide for the redemption of the three-per-cent temporary loan-certificates, and increase the national bank-notes ; to amend the Act providing for a national currency, establish free banking and other purposes ; to authorize the issue of United-States bonds in exchange for

legal tenders ; to provide for free banking and the better security of depositors, to hinder usury and give elasticity to the currency, preserve its value to the people, and to prevent financial panics by locking up the currency ; to strengthen the national banks and give elasticity to the currency ; to issue to national banks currency equal to ninety per cent of the market value of United-States bonds ; to provide \$25,000,000 of additional bank circulation in States having less than their proportion ; to repeal the Act of 1869, entitled an Act to strengthen the public credit ; to provide a free banking law ; to provide a general banking law ; also, for the interchange of government-bonds and national currency, and the redemption of it in coins and interest-bearing notes ; to repeal all laws authorizing banking associations ; to substitute United-States for national bank-notes. Representatives Cox and Pierce introduced bills relating to the resumption of specie payments, and other plans were embodied in bills and resolutions introduced, beside those mentioned. Over sixty different propositions, either in the form of bills or petitions, were sent to the Senate Finance Committee pertaining to the currency.

The Senate finished their discussion first, amended their bill by increasing the amount of legal-tender notes to \$400,000,000, and authorized an additional issue of \$46,000,000 of bank-notes, which were to be distributed to banks in the South and West. All the banks, however, were required to keep as a part of their lawful reserve one-fourth part of the coin received from the government for interest on bonds, nor could any bank keep more than one-fourth part of its reserve in the banks of the reserve cities, where the entire amount had been usually kept at a low rate of interest.¹ Whether inflation or con-

¹ It passed the House April 14, and was vetoed April 22.

traction would result from this measure could not be predicted with confidence. The President clearly perceived the true nature of the bill and returned it to the Senate with a veto, saying, among other things, that it was practically a question whether the measure would give an additional dollar to the irredeemable paper currency of the country or not, and whether, by requiring three-fourths of the reserves to be retained by the banks, and prohibiting interest to be received on the balance, it might not prove a contraction. The fact could not be concealed that, theoretically, the bill increased the paper circulation \$100,000,000, less only the amount of reserves restrained from circulation by the provision of the second section. The measure had been supported on the theory that it would give increased circulation. It was a fair inference, therefore, that, if in practice, the measure should fail to create the abundance of circulation expected of it, the friends of the measure, particularly those out of Congress, would clamor for such inflation as would give the expected relief. The President then said, with the bluntness of honesty, "The theory in my belief is a departure from the true principles of finance, national interest, national obligations to creditors, congressional promises, party pledges,—on the part of both political parties,—and of personal views and promises made by me in every annual message sent to Congress and in each inaugural address."

The veto of the President was hailed with delight by all who were opposed to inflation. It will ever be regarded as one of the crowning glories in President Grant's civil career. It broke the back of the inflationists. The President at that moment was at the parting of the ways and turned the government into the safe one. The battle was the hardest ever

fought in Congress by the inflationists, and they were defeated by him who had won so many victories for the Union in the field. To that long and splendid list the President added a civil victory, the good effects of which were unspeakably great.¹

The House then passed their bill providing for free banking and sent it to the Senate. The bill was briefly discussed; for, by that time, all had said and heard enough. It was amended, the free-banking feature was eliminated, \$55,000,000 of currency were to be withdrawn from the Eastern banks for the use of those in the South, West, and Territories, and the amount of legal-tender notes was fixed at \$382,000,000. This bill received the approval of the President.² It merely prescribed a more uniform distribution of the bank circulation.

Early the next session an effort was made to secure harmonious party action on this subject among the Republicans. A congressional caucus was held, and a committee were appointed who perfected a bill which, though pleasing nobody, was the

¹ The Nation said: "The difficulties surrounding General Grant in the present instance were far greater and more serious than in ordinary times—so serious that it was not for a moment supposed, ten days ago, by ninety-nine persons out of a hundred, that he would not sign the bill. He was in the difficult position of a President who had gained power and consideration through the support of men who were his inferiors in many solid moral and intellectual qualities, who must remain in office, and who must also, during those years, have support from some quarter in order to carry on the administration at all. . . . He declines to sign it because it is designed as an inflation measure, because he has always been opposed to irredeemable paper money; and because the party which elected him President has over and over again declared itself in favor of a speedy return to a currency based on gold."—April 30, 1874.

² Act, June 20, 1874, 43 Cong., first session, chap. 343.

best that could be framed with the prospect of safely running the inflation gauntlet. Mr. Sherman introduced the bill into the Senate, which was truly of curious and wonderful workmanship. If no other part of our financial experience was original, this certainly was.

When introduced, gold commanded a premium of twelve per cent. On the 22d of December, Mr. Sherman discussed the measure briefly, others participated, and on the same day the bill passed, all the Republican senators voting for it, except Mr. Schurz,—the Democrats opposing it. Mr. Schurz insisted that positive provision should be made in the bill for retiring the notes after redemption, which had been necessarily omitted to secure the support of Senator Morton and others, who had not much faith in the success of any scheme for redemption at an early and definite period. The bill flitted through the House on the wings of the previous question and became a law.

The Act was entitled "An Act to provide for the resumption of specie payments."¹ Many questioned whether it would prove effective. The first section provided for the redemption of the fractional currency. Silver coins of ten, twenty-five and fifty cent denomination were to be coined and issued through the sub-treasuries, post-offices, etc., in exchange for an equal amount of fractional currency, until the redemption of it should be completed. To this section the criticism was made that as silver was at a considerable premium compared with the fractional currency it would not circulate. Consequently, "the more put in circulation, the less there would be of small change, because the silver would disappear, while the fractional paper, to the same extent, would have been with-

¹ Act, Jan. 14, 1879, 43 Cong., second session, chap. 15.

drawn." The second section provided for the abolition of seigniorage and for coining silver. The third section removed the restriction on the amount of bank-notes, and further provided that the secretary of the treasury should retire eighty dollars of legal-tender notes for one hundred dollars of those issued by the banks. He was directed to do this until the amount of legal tenders should be reduced to \$300,000,000; in other words, he should retire \$82,000,000 of legal-tender notes if \$102,500,000 of bank-notes were issued. Of course, the national treasury would lose the interest on the legal-tender notes retired, and the national banks would increase their circulation, taxation would be increased, and how the treasury could be enabled to begin specie payments was not clear to many. Was not this expansion? It was the substitution of a larger amount of national bank circulation for the other. The law contained another singular feature. The legal-tender notes were to be called into the treasury, yet the Act was silent about re-issuing or destroying them. Mr. Sherman was asked by Mr. Schurz several times whether the secretary would have authority under the bill to re-issue these notes. He replied, that the question must be left unsettled.

The next section of the bill fixed on the 1st of January, 1879, for resuming specie payments, and in order to do this the secretary of the treasury could "use the surplus revenue in the treasury not otherwise appropriated, and issue such United-States bonds as had been previously authorized to the extent necessary for the purpose."

The measure had many friends and opponents. It was clear as noon-day that resumption could be defeated by it if the head of the treasury department who should administer the law during the next four years were so inclined. Anyhow,

specie payments were delayed four years with no little uncertainty concerning the action of the secretary of the treasury at the end of that time. Said a very competent financial critic,¹ "What of specie resumption do we find in the entire Act? What preparation does it make for securing the object? Certainly none at all. Yet the authors of the measure would have us believe that the Act provides for the resumption of specie payments. For what does it actually provide? Why, that the banks may indefinitely expand their issues; that eighty-two millions of the legal-tender circulation of which the treasury now has the advantage may be transferred to the national banks to increase their already abundant dividends; that the surplus gold of the treasury, instead of being used as it accumulated, shall be reserved until 1879; that the secretary may then issue all the bonds necessary to redeem the balance of the greenback circulation."

Such was the Act and criticism thereon. Let us next inquire what happened. And, first, we may mention that those who were in favor of resumption, and who had no faith in the Act, or whose faith was weak, sought to strengthen the measure. Mr. Bristow was now secretary of the treasury, having succeeded Mr. Richardson. After declaring that the legal-tender laws were "an artificial barrier to the use of gold and silver, tending not only to prevent the flow of gold towards this country, but promoting the shipment abroad of our own production of the precious metal," he recommended that "Congress should abolish the legal-tender quality of the notes as to all contracts made and liabilities arising after a fixed day."² The day mentioned was the 1st of January,

¹ Amasa Walker, 2 International Rev., p. 272.

² Ann. Treas. Reports, 1874, 1875.

1877.¹ "Such an Act would not affect injuriously either debtors or creditors, but would remove a present obstruction to the retention of our gold and silver production, and create a demand for the return of gold now abroad, thus promoting final resumption by preparing the country for it." To further the purpose of the law, he recommended that authority be given to fund legal-tender notes into bonds bearing a low rate of interest, and to guard against all danger of too sudden contraction of the currency, the amount that might be reduced and cancelled could be fixed at two millions a month. Congress did nothing.

The attitude of the Democratic party at this time was sadly interesting. They had opposed the issue of legal-tender notes in war time, but were in favor of issuing them in time of peace. It is true the constitutional objection to issuing them, which was strongly urged by Democrats for several years, had been swept away by the decision of the highest legal tribunal. While denouncing the improvidence of the Republican party in squandering "four times the whole amount of legal-tender notes in useless expense without accumulating any reserve for their redemption," the Democratic party also denounced the resumption clause of 1875, and demanded its repeal.² Indeed, the general verdict of the world is that the party quite changed front, with the earnest and unfeigned hope of converting enough Republicans to regain power. But if the Democratic party were hopelessly stranded on this question, many in

¹ This recommendation was regarded with great disfavor by the inflationists. Judge Kelley declared that such action would be "the greatest crime committed since the partition of Poland." The Nation contains an excellent article on the subject. Dec. 24, 1874.

² Platform of Democratic Presidential Convention, 1876.

the Republican party were dangerously near the shoals, especially in the West, and the most sagacious piloting was necessary in managing political bodies, and in devising and passing meaningless and inoffensive resolutions and platforms, to keep in safe waters. It was not easy in many instances to distinguish superior wisdom and virtue between the efforts of the one party, who were stuck fast and trying to get off, and the other, who were trying to keep in the channel. This much, though, may be said : In the East and extreme West the people more generally favored specie payments than in the Western and Southern States, and a much greater solidarity of opinion was shown by the Republican party at all times in favor of resumption than by the other.

Secretary Morrill followed by a recommendation quite similar to that of his predecessor, that beside authority to accumulate gold by the sale of bonds for redeeming the notes, "authority be given him from time to time, as he might deem expedient and the state of the finances admit, to fund these notes into a bond bearing a rate of interest of not more than four and one-half per cent, with not less than thirty years to run, with such limitations as to the amount to be so funded in any given period as Congress, in its discretion, might determine."¹ On this recommendation Congress took no favorable action.

The first provision of the Act providing for the purchase, coinage, and issue of silver to replace the fractional currency was soon put into operation. No time was fixed for the issue of silver, and the depreciation of currency below gold precluded "the probability that silver would remain in circulation" until the two approached nearer the same level of

¹ Ann. Treas. Report, 1876.

valuation. When Secretary Morrill rendered his annual report, in December, 1876, \$22,000,000 of subsidiary silver coins had been issued, and \$13,000,000 of fractional currency redeemed. As national bank-notes were issued under the law, eighty per cent of legal tenders were retired, and thus the work of resumption proceeded.

An attempt had been made three years before to begin resumption in silver, which, however, came to a speedy end. The United-States notes had been hoarded so rapidly that they rose in value to ninety-three cents in gold, which was above the value of the fractional coins then in circulation. President Grant, noticing this fact, was surprised because silver did not come into the market to supply the deficiency in the circulating medium. This was on the 6th of October. On the 27th of the month, Secretary Richardson issued a circular letter to the several sub-treasury officers, directing them to pay out silver coin to public creditors, should they desire it, in sums not exceeding five dollars in one payment. The amount of silver in the treasury on the 31st of October, 1873, was \$748,820.77, not a very large sum, surely, with which to begin specie payments. This order served as a text for much uncomplimentary newspaper writing, and was quietly revoked by verbal orders and private letters.

In March, 1877, Mr. Sherman became secretary of the treasury. This was a fortunate event for the successful execution of the law. Ever since its enactment his predecessors had been faithfully executing it. Messrs. Richardson, Bristow, and Morrill had rapidly succeeded to the treasury office, yet they were in perfect accord on this subject, and so also was the President. Mr. Sherman, it was well known, had proposed the plan in the beginning, and was its champion in

the Senate. The spirit of inflation, though, was not dead; and the air was thick with plans for issuing more paper money. From the time of issuing the first legal-tender notes to the present, a very large number of persons have advocated the exercise of wider functions by the government in furnishing a currency for the people. If plans were annually introduced into Congress, after the close of the war, for restoring specie payments, many of which had great merit, let us not forget that quite as many plans for postponing specie payments and enlarging the currency were brought forth. If the *flat* money party failed in the end, it cannot be said of them that they were less fecund in ideas and plans than their opponents. Thus the paper-money volcano existed, sometimes smouldering, at other times burning fiercely. Even now, when specie payments were not far off, an eruption broke forth. In 1878, a few months before the date fixed for resuming specie payments, Congress passed an Act directing the secretary of the treasury to retire no more legal-tender notes when increasing the national bank circulation, and to keep the amount then outstanding in circulation.¹ The amount at that time was \$346,681,016. The amount, therefore, of the reduction, since enacting the resumption law, had been \$35,318,984. It should be added, to complete this explanation, that \$10,000,000 of the above amount were redeemed under a joint resolution, passed July 22, 1876, providing that silver coin to that amount might be issued for legal-tender notes.

In his first report² Mr. Sherman settled the much-discussed question of the right of the secretary of the treasury to reissue legal-tender notes after the time fixed for their redemption.

¹ Res., May 31, 1878, No. 65.

² 1877.

The third section of the Resumption Act plainly provided for the permanent reduction of United-States notes to \$300,000,000. The Act contained no distinct legislative declaration that notes redeemed after that limit was reached should not be reissued, but the Revised Statutes contained the provision that "when any United-States notes are returned to the treasury they may be reissued, from time to time, as the exigencies of the public interest may require." The secretary therefore concluded that any notes exceeding that amount in the treasury after the 1st of January, 1879, might be "reissued as the exigencies of the public service require."

Although authority was given to the secretary of the treasury to obtain coin for resumption purposes by selling bonds, no step in this direction was taken until May, 1877. Bonds bearing four and a half per cent interest were then sold, \$5,000,000 monthly, for the next three months. From August to November the same amount of bonds was sold monthly, bearing four per cent interest, and in this way \$40,000,000 of gold were accumulated for redeeming the legal-tender notes. On the 11th of April of the next year, the secretary sold \$50,000,000 of four-per-cent bonds to a syndicate of New York and London banks, the proceeds of which were used in the same manner.¹ The \$5,500,000 coin paid on the Halifax award had been replaced by the sale of that amount of four-per-cent bonds, used for redemption purposes, making the aggregate thus sold \$95,500,000. To this was added the surplus revenue from time to time; consequently, on the day fixed for resuming, the amount of

¹ "The accumulation of coin instead of increasing its price, as was feared by many, has steadily reduced its premium in the market."—*Ann. Treas. Report*, 1878.

coin on hand, deducting all matured liabilities, was \$133,508,804.50.

The secretary had thus accumulated a good stock of coin with which to redeem the government-notes. The gold supply in the country was increased by producing an enormous surplus of grain, meat, and other things, which were sold abroad at good prices and largely for gold. This addition to our metallic stock was very opportune and rendered resumption easy. Indeed, if the balance of trade had been against us, and gold had been exported in settlement, resumption would have been quite impossible.

To render resumption certain, the co-operation of the banks was desirable, nay, necessary. For a year or more before resumption took place, the question was often asked, "What will the banks do on resumption?" They held more than \$125,000,000 of legal-tender notes, and nearly one-third of this amount was in the city of New York. On the day fixed for resuming, the banks of New York could have presented more than \$40,000,000 at once, and their action would have influenced that of their correspondents, and of other monetary institutions of the country, and have weakened the faith of the advocates of resumption everywhere. "Such an act, if it had not defeated resumption, would certainly have embarrassed it, and might possibly have postponed indefinitely its consummation." What did the banks do?

The expediency of making the assistant treasurer of the United States a member of the New-York Clearing-house of that city was favored by almost all the banks belonging to that association, which was, at that time, composed of forty-nine national and thirteen State banks. Subsequently, a committee of the association met the secretary, and the follow-

ing propositions were considered: First, that drafts drawn on any bank represented in the clearing-house received by the assistant treasurer might be presented to each bank at the clearing-house for payment. Secondly, that drafts drawn on the assistant treasurer at New York might be adjusted by him at the clearing-house, and the balance due from the United States might be paid at his office in United-States notes or clearing-house certificates. That after the 1st of January, payment of checks presented to the assistant treasurer by any bank connected with the clearing-house might be made by him in United-States notes. This arrangement was adopted, beside the following rules for transacting the business of the banks after specie payments should be resumed, which were also adopted by the clearing-house in Boston. "Furthermore, the banks determine to decline receiving gold coins as special deposits, but accept and treat them only as lawful money; to abolish special exchanges of gold checks at the clearing-house; to pay and receive balances between banks at clearing-house, either in gold or United-States legal tender; and to discontinue gold special accounts on the first day of the coming year."¹ When this arrangement was completed and made known, all doubt of specie resumption vanished, gold declined in value, and that long looked-for day was assured.²

¹ See action of New-York Clearing-house Oct. 17, 1877, and Nov. 12, 1878. Proceedings of Am. Bankers' Convention, Aug. 8, 1878, p. 35. N. Y. Tribune, Nov. 13, 1878. Proceedings, 1877, p. 21.

² Gold touched par on the 17th of December. The N. Y. Times of the next day contained the following record: At 12.29 o'clock yesterday, according to the official record, \$10,000 of gold was sold in the gold department of the stock exchange (the old gold exchange), at par. This is the first sale of gold at par that has taken place in this country in sixteen years. The room was almost empty at the time the transaction was made,

Immediately preceding resumption the issue of certificates representing gold deposits was discontinued.¹ "It was feared that parties might present legal-tender notes based upon a forty-per-cent reserve, obtain the gold therefor, and immediately deposit it for the certificates for which, by law, the department was required to hold one hundred per cent."² For more than three years the secretary refused to issue them, and not until July, 1882, was the practice renewed.

For a month before the day fixed for resumption, resumption had really occurred. On that day, although the banks could have demanded \$40,000,000 of gold, they took not a dollar. At the beginning of the war they parted with their gold to aid the government, and now, when resumption was accomplished, they were content to take whatever it desired to give.

and so quietly was it accomplished that only three or four persons who stood near the register's desk knew anything about it. It was a coincidence that the record-book, on which accounts of sales are kept, had so nearly run out that all these transactions were recorded by the clerk on the last page of the last leaf. Word was sent immediately to the stock exchange, and the announcement of each sale was received with vigorous cheers. Following are the highest prices reached by gold in each year, beginning with 1862, when it was quoted at 102 on Jan. 1:

1862	134	1871	115 $\frac{3}{8}$
1863	152 $\frac{1}{2}$	1872	115 $\frac{5}{8}$
1864	285	1873	119 $\frac{1}{8}$
1865	233 $\frac{3}{4}$	1874	114 $\frac{3}{8}$
1866	167 $\frac{3}{4}$	1875	117 $\frac{5}{8}$
1867	145 $\frac{5}{8}$	1876	115
1868	150	1877	107 $\frac{1}{4}$
1869	162 $\frac{1}{2}$	1878	107
1870	123 $\frac{1}{2}$		

¹ N. Y. Tribune, Dec. 5, 1878.

² Ann. Treas. Report, 1881.

Previous to the day fixed for resumption, said the secretary in his report at the close of the year, United-States notes and coin were freely received and paid in private business as equivalents.¹ Actual resumption was begun at the time fixed by law, without any material demand for coin, and without disturbance to public or private business. "No distinction has been made since that time between coin and United-States notes in the collection of duties, or in the payment of the principal, or interest of the public debt. The great body of coin indebtedness has been paid in United-States notes at the request of creditors. The total amount of United-States notes presented for redemption from January 1 to November 1, 1879, was \$11,256,678. But little coin had been demanded on the coin liabilities of the government during the same period, though the amount accruing exceeded six hundred million dollars."

The specie standard, thus happily secured, gave an impetus to all kinds of business. Many industries, which had been depressed since the panic of 1873, revived, while increased activity appeared in all branches of production, trade, and commerce. Every preparation for resumption was accompanied with increased business and confidence, and its consummation was followed by a revival of productive industry unexampled in our previous history.²

Having resumed specie payments, could the government maintain them? The doubter, who is always present, had grave fears. Let a foreign demand be made for coin, and the government would be immediately required to respond to the

¹ Some payments were made in gold as early as April, 1878. N. Y. Herald, April, 24, 1878.

² Ann. Treas. Report, 1879.

holders of its notes. Resumption was therefore regarded by this class merely as a fair weather undertaking which could not last long. Mr. Sherman's faith was stronger, though he reminded Congress that "the coin reserve¹ must be kept unimpaired except by such payments as might be made from it in redemption of notes." Those redeemed should be temporarily retained, and in a supreme emergency the power existing to sell bonds would enable the government to supply any possible deficiency.²

So that question which had vexed the land for seventeen years was ended. England delayed more than four years longer than the United States after suspending in 1797. If England's delay was longer, the suffering during the suspension was not so great; no demoralizing speculation arose, no enormous advance of prices. It has been often said that the people expected, and were prepared for resumption soon after the return of peace, and that if then effected, the sufferings of individuals and the nation would have been much less than they were. The naked truth is, the people were desirous of resumption until they gained some conception of the probable cost, and then they shrunk from paying it, and desperately sought to escape. If the effects of employing paper money have sometimes been regarded miraculous,

¹ What is the amount of the coin reserve held to redeem the United-States notes? No statute specifies a fixed amount for that purpose. By authority of the Resumption Act, the Treasury Department "sold bonds and took coin therefor to the amount of \$95,500,000, and put that sum into the treasury. This department," said Secretary Folger, in a communication to the House in March, 1884, "has always looked upon the sum of the coin thus obtained as an especial fund to be kept and relied upon as a means of redemption of United-States legal-tender notes."

² Ann. Treas. Report, 1880.

as they were by the Spanish chronicler Agrepieda during the conquest of Granada, the people have learned their true nature whenever they have attempted to pay it. In ignorance, they imagined they could escape payment by delaying, yet this was the costliest way of all. The uncertainty, anxiety, and loss caused by maintaining a paper standard of valuation which Congress every session almost either had changed or attempted to change can not possibly be described. Speculators alone could rejoice in that dark and troubled time. Like the wrecker of a former age, who, lighting his lantern, sought to allure an ignorant craft upon the rocks with the expectation of plundering and of getting wealth, speculators industriously plied their business after the suspension of specie payments with a heartless recklessness hitherto unknown. It is said that occasionally the ancient wrecker would allure a vessel having on board a son or brother, and whose lifeless body, tossed up by the condemning sea into the wrecker's face, would cause him to turn away with sickening sorrow, and to abandon his business. The loss of wealth by speculation, leading to suicide and a dreadful death in other ways, or insanity and a life worse than death, has been a common event; but what speculator ever abandoned his business in consequence of his wrecking of human character? Of all the terrible and immeasurable consequences of suspending specie payments, none can be compared with the force given to speculation. As the violence of the storm can be measured by the height and slow subsidence of the waves, so the prevalence and intensity of speculation are the continuing proof of the magnitude of our action in suspending specie payments.

CHAPTER III.

PAYMENT AND REFUNDING OF THE PUBLIC DEBT.

THERE were two strands to Mr. McCulloch's financial policy—the resumption of specie payments, and the funding and payment of the debt. Having followed one of these to the end, we will take up the other and follow it to the present time.

After debt-paying began, the cheap criticism was often repeated that the government was paying its bonded indebtedness in advance of maturity, and neglecting its overdue obligations. This criticism, of course, was true. All the unpaid requisitions of the war were speedily paid, the interest-bearing treasury-notes were funded into bonds running for a longer time, while the demand-notes remained unpaid. We were therefore guilty of the inconsistency of carefully caring for our credit in one direction and as conspicuously neglecting it in another. The reason was because we could do the one thing without injuring anybody, we could not do the other without a heavy sacrifice.

From the first, the policy of national debt-paying has been widely favored. Some interests which would be better served by continuing the debt have sought to reverse this policy, but the voice of the people has been quite unanimous. Mr. McCulloch reflected that opinion correctly in his annual report at the close of 1866. "The conviction is becoming fastened upon the popular mind that it is important for economy in the national expenses, for the maintenance of a true democracy

in the administration of a government, for the cause of good morals, and of public virtue, that the policy of a steady annual reduction of the debt should be definitely and inexorably established. Nothing short of this, and that economy in the national expenditures which will render it practicable, will reconcile the people to the burden of taxation. A national debt must ever be a severe strain upon republican institutions, and ours should not be subject to it one day longer than is necessary. Although incurred in a great struggle for the preservation of the government, and therefore especially sacred in its character, its burdens are to be shared by those to whom it is a reminder of humiliation and defeat. It is exceedingly desirable that this, with other causes of heart-burnings and alienations, should be removed as rapidly as possible, and that all should disappear with the present generation."

On the 1st of September the debt recorded on the books of the treasury reached its maximum, though a large amount of war obligations, pensions, etc., were not yet paid. At that time the debt consisted of the following items :—¹

Funded debt	\$1,109,568,191
Matured debt	1,503,020
Temporary loan	107,148,713
Certificates of indebtedness	85,093,000
Five-per-cent legal-tender notes	33,954,230
Compound-interest legal-tender notes	217,024,160
Seven-thirty notes	830,000,000
United-States legal-tender notes	433,160,569
Fractional currency	26,344,742
Suspended requisitions uncalled for	2,111,000
	\$2,845,907,626
Deduct cash in treasury	88,218,055
	\$2,757,689,571

¹ Ann. Treas. Report, 1867.

Of this vast sum, \$1,276,834,123 consisted of various forms of temporary securities. The excess of United-States notes above \$400,000,000—namely, \$33,160,569—had been put into circulation in discharging temporary loans. The five-per-cent notes were payable in lawful money in one and two years from December 1, 1873. The compound-interest notes were payable in three years from their respective dates, and became due between the tenth day of June, 1867, and the 16th of October, 1868. At that time¹ a very large portion of all kinds of national notes were in circulation as currency.

Of temporary securities which were not a legal tender, may be mentioned first, the temporary loans, \$107,148,713, which were payable in thirty days from date, after a notice of ten days that payment was desired. There were \$830,000,000 of seven-thirty notes, \$300,000,000 of which would become due August 5, 1867, as many more the 15th of the following June, and \$230,000,000 July 15, 1868. The certificates of indebtedness would mature at various times between the 31st of August, 1865, and May 2, 1867. Moreover, \$18,415,000 of the funded debt would mature within three years. Thus this vast amount must be paid or converted into bonds before the 16th of October, 1868.

In September, therefore, the work of paying and converting the debt began. It was needful to make provision for the daily maturing debt, and also for taking up, from time to time, such portions of it as could be advantageously converted into bonds, or paid in currency before maturity, for the purpose of avoiding the necessity of accumulating large sums of money, and of relieving the treasury from the danger to which it would be exposed, if a very considerable portion of the

¹ See note, page 281.

debt were permitted to mature, with no other means for paying it than that afforded by sales of bonds. The seven-thirty notes had been issued with an option to the holders of converting them into bonds or demanding payment. Of course, their action would be determined by the condition of the market. "No prudent man," says Mr. McCulloch, "entrusted with the care of a nation's interest and credit, would permit two or three hundred millions of debt to mature without making provision for its payment, nor would he, if it could be avoided, accumulate large sums of money in the treasury which would not be called for, if the price of the bonds should be such as to make the conversion of the notes preferable to their payment in lawful money." The policy of the secretary was therefore determined by the condition of the treasury and the country, and by the nature of the debt. This was first, simply to put and keep the treasury in such condition that all claims could be paid on presentation, and "strong enough to prevent the success of any combinations that might be formed to control its management;" and, secondly, to take up quietly in advance of their maturity, by payment or conversion, such portions of the temporary debt as would obviate the necessity of accumulating large currency balances in the treasury, and at the same time relieve it from the danger of becoming so depleted that more legal-tender notes must be issued, or the sale of bonds for whatever price they would fetch.

He therefore recommended Congress to deprive the compound-interest notes of their legal-tender quality from the day of their maturity, and to clothe him with discretionary power to sell United-States bonds, bearing not more than six per cent interest, and redeemable when conducive to the

interests of the government, for the purpose of retiring the compound-interest United-States notes ; and, in addition, the granting of discretionary authority to sell bonds of a similar nature, to meet any deficiency during the fiscal year, to reduce the temporary loan to such an amount as he might deem advisable, to pay the certificates of indebtedness as they matured, and retire any portion of the debt maturing prior to 1869 that he could advantageously. These recommendations led to a prolonged discussion, and the financial administration of the war was reviewed at length. The action of Congress was watched with great interest, for all were eager to know, both here and abroad, what would be done with the debt. The time had come when Congress could legislate deliberately and without pressure. Mr. Sherman, having stated in the debate that the secretary already had power to carry out his recommendations without further legislation, drew forth from the secretary the reply that it would be, in his opinion, "a national calamity if Congress failed to grant to him additional powers, and that it would be very difficult, if not impossible, to fund the interest-bearing notes under existing laws." He regarded it as a matter of the greatest importance to be left with power not strictly defined. If, for example, the secretary should be prohibited from selling bonds below par, it would be easy, as the market in the process of funding must be liberally supplied, for the enemies of the government to form successful combinations for keeping the bonds at such a price as would prevent the negotiation of them. "If his authority in this respect was not limited, no such combination would be likely to be formed."

At length Congress amended the Act of March 3d, the previous year, and authorized him at his discretion to receive

treasury-notes or other obligations of the government, whether bearing interest or not, in exchange for any description of bonds authorized by that Act ; and, further, to dispose of any bonds thus authorized, either in the United States, or elsewhere, to such an amount, in such a manner, and at such rates as he might think advisable for lawful money, or for treasury-notes, certificates of indebtedness, or certificates of deposit, or other representatives of value which had been or might be issued, the proceeds thereof to be used only for retiring treasury-notes or other obligations issued by Congress. Except the limitation on the amount of legal-tender notes which the secretary could retire, the law granted to him all the authority he desired.¹

No law was ever passed by Congress granting so much authority to the secretary in the management of the debt and currency. His discretion had been enlarged as the national expenditures increased and the need of obtaining a larger supply became greater. This law bestowed authority in a different direction—namely, in the funding of the debt, and in contracting the currency. The people were soon to learn how the secretary intended to exercise his extraordinary power.

The converting of the temporary obligations into six-per-cent bonds, payable at the pleasure of the government, was begun contemporaneously with the contracting of the paper circulation. Near the close of 1867 he could report that since the 1st of September, 1865, the temporary loans, the certificates of indebtedness, and the five-per-cent notes had been paid, with the exception of small amounts that had not been presented, the compound-interest notes had been reduced from \$217,024,160 to \$71,875,040, the 7.3 notes from \$830,000,000

¹ Act, April 12, 1866, 39 Cong., first session, chap. 39.

to \$337,978,800, and the legal tenders and fractional currency from \$459,505,311 to \$387,871,477, while the cash in the treasury had been increased from \$88,218,055 to \$133,998,398, and the funded debt had also increased \$686,584,800. Thus nearly \$1,300,000,000 of temporary obligations had been paid or funded without disturbance to the ordinary business of the country.

The policy of converting these temporary loans did not find favor in all quarters. If the secretary could truthfully say, near the close of 1867, that "the result upon the whole had been satisfactory" to himself, and, as he believed, "to a large majority of the people," it was not to all. Senator Sherman afterward declared in the Senate, that when the war ended "the amount of gold-bearing bonds did not much exceed \$1,000,000, and all the rest of our indebtedness was in currency securities; but by this mistaken action the latter were converted into six-per-cent five-twenty bonds, and the period of payment was postponed eight years by allowing their conversion at the end of three years."¹ Whatever opinion might have been entertained about our finances in 1865, "there can be no doubt that on the 12th of April, 1866 [when the above mentioned law was passed], it was not wise or politic to fund the debt into a six-per-cent bond."² Nevertheless, this policy was pursued of paying or funding the temporary debt until it disappeared.

¹Speeches, p. 247.

²Ibid., p. 248. "The effect of this legislation," he added, "was at once to sever the bond from the note. All forms of indebtedness except the notes were allowed to be funded into bonds. This at once checked the appreciation of the notes. Gold had greatly lowered in price, till, in April, 1866, when this Act was passed, it was only worth twenty-five and one-half per cent premium; but from the passage of this Act it immediately rose, and in July averaged fifty per cent."

The criticisms relating to the execution of this feature of his policy were slight compared with his management of the gold received for duties. In March, 1864, Congress authorized the secretary to anticipate the payment of the interest on the public debt for a period not exceeding a year, and to dispose of any gold in the treasury not necessary for the payment of interest on the public debt. When the bill was discussed strong opposition appeared. It was seen clearly, even then, that to accumulate gold in the treasury, beyond the real wants of the government, was to deplete the market and enhance the price. Again, many who were willing that the surplus should be sold objected strenuously to clothing the secretary with the power to sell it at private sale. On the one hand, it was believed that if he had this power he could more effectually thwart the design of the gold speculators, while they, naturally enough, were unwilling he should have it, because he could thus control to some degree their movements. Others were opposed for different reasons to the granting of such power.¹ The law had no immediate effect on the price of gold.

The policy of Mr. McCulloch was to keep a large gold reserve. He maintained that confidence in securities at home and abroad was strengthened by constant evidence of the ability of the government without depending on purchases in the market to pay the interest on the public debt, and a steadiness to trade by preventing violent fluctuations in the convertible value of the currency, which were more than an ample compensation to the country for any loss of interest that might be sustained. If the gold in the treasury were down

¹ 18 Bank. Mag., pp. 761, 844. EX. Doc., No. 134, 39 Cong., first session. House Report, No. 14, 39 Cong., second session.

to what was absolutely needed for the payment of the interest on the public debt, not only would the public credit be in danger, but the currency ; and, consequently, the entire business of the country would be constantly subject to the dangerous power of speculative combinations.

Such a disposal of the gold was called by those opposed to the secretary's policy "secret sales." They were made when the secretary thought that prices were satisfactory and when currency was needed. Though made in the open market, buyers were not advised when and to what amount sales would be made. The same method was observed in selling bonds. If specie payments had been in operation, and the debt of the government had been funded, there would have been but little need for the secretary to consider with much care the condition of the stock and money market. But so long as specie payments were suspended, and a vast amount of public indebtedness was held in the form of temporary obligations, the secretary could not disregard the conditions of these markets. "If bonds had to be sold to provide the means for paying the debt that were payable in lawful money, it was a matter of great importance to the treasury that the price of the bonds should not be depressed by artificial processes. If the seven-thirty notes were to be converted into five-twenty bonds, it was equally important that they should sustain such relations to each other in regard to prices that conversions would be effected. If bonds were at a discount, the notes would be presented for payment in legal tenders, and these could only be obtained by further issue, or the sale of some kind of securities. Until the temporary obligations were funded, therefore, the state of the money and stock market was a matter of deep solicitude to the secretary. If he

had been indifferent to it in his own judgment, or failed carefully to study the influences that controlled it, and had hesitated to exercise the power with which Congress had clothed him for successfully funding the temporary debt by conversions or sales, he would have been false to his trust." That, on the whole, he did exercise this great power wisely, is the general judgment of those who watched his conduct most closely, and who were the most competent to pronounce an intelligent opinion.

By the time the last of the temporary obligations¹ had been funded, in 1868, \$271,496,018 of the public debt had been paid. This was an enormous and gratifying reduction. Two problems now remained—to continue to pay the debt, and to refund at lower rates whenever the opportunity arose.

A sinking-fund law had been enacted in February, 1862,² but the expenditures during the war so greatly exceeded the revenue of the government that no surplus existed for such application. The law provided that one per cent of the entire debt should be purchased within each fiscal year and set apart as a sinking fund, and that the interest on this fund should be applied in like manner to the purchase or payment of the debt. As the bonds purchased for the sinking fund were destroyed by law, Congress provided that an amount equal to the interest on the bonds thus destroyed should be applied, the same as though they existed. If the law had been enacted from the beginning, the amount paid for the fiscal year ending

¹ The amount of six-per-cent bonds or "consuls," as they were called, to distinguish them from the bonds issued under the Act of 1865, which were issued to discharge the temporary obligations, was, in 1865, \$332,998,950; 1867, \$379,618,000; 1868, \$42,539,350.

² Ann. Treas. Report, 1876, p. 10.

June 30, 1863, would have been \$5,556,269; for 1864, \$12,184,090; and for 1865, \$20,233,683. The next year the reduction of the debt began, and the sum of \$31,196,387 was paid.

From that time onward to the present the debt has been reduced, though not regularly, as the sinking-fund law required. Some years only small sums have been paid, and some years even there has been a slight increase. A larger aggregate amount, however, has been paid than was required by the sinking fund. What the secretaries of the treasury have done—and they could do no more—was to pay into the sinking fund the surplus funds of the treasury after discharging all other indebtedness. As administered, therefore, it is no more effective than a law would have been requiring the secretary to use the surplus revenue in payment of the public debt. If the law had provided that in the event of an insufficient revenue to pay the amount required by the sinking-fund law and all other laws of the government, the secretary should make a preference of the sinking fund, either in part or in whole, to specific appropriations like those for rivers and harbors and other improvements which rest on no obligation, then the sinking-fund law would have had a genuine vitality and effectually extinguished the debt. So long as the present construction exists the debt may be paid, because public sentiment strongly favors it; but the way is easy to defeat its reduction unless the provisions of the sinking-fund law are rendered more imperative.

Debt-paying had not gone very long before the question was

¹ Concerning destruction of bonds after redemption, see House Report, No. 23, 40 Cong., second session; Report of Joint Select Com., on United-States Securities, No. 273, 40 Cong., third session.

raised whether the government was not justified in paying the \$500,000,000 five-twenty loan of 1863 in legal-tender notes. The inquiry excited great interest and some alarm.

During the debates in Congress on the bills for authorizing this loan, very little was said concerning what lenders would receive in payment. The bill itself was silent on the subject. The chairman of the Committee of Ways and Means, when trying to show what a desirable investment these bonds would be, said, "A dollar in a miser's safe, unproductive, is a sore disturbance. In United-States loans, at six per cent, redeemable in gold in twenty years, the best and most valuable permanent investment that could be desired." And again he said, "Widows and orphans are interested, and in tears, lest their estates should be badly invested. I pity no one who has money invested in United-States bonds, payable in gold in twenty years, with interest semi-annually."

These utterances clearly show how Mr. Stevens supposed they would be paid, and, doubtless, all the members thought like himself. As the government-bonds had always been paid in gold, the usage was so well known that a statement in the law was not thought necessary.¹ In two later Acts, March 3, 1863, and March 3, 1864, it was expressly stated that the bonds should be paid in coin; these provisions, though, attracted no attention at the time, either in Congress or among the people, and were accidental. Under the former of these Acts, nearly

¹ This question was raised by S. H. Walley, President of the Revere Bank, Boston, in 1863, to which the assistant secretary replied, "The five-twenty sixes, being payable twenty years from date, though redeemable after five years, are considered as belonging to the permanent loan; and so are also the twenty-year sixes (1881), into which the three years seven-thirties are convertible. These bonds will, therefore, be paid in gold."—18 *Bank. Mag.*, p. 10.

\$300,000,000 of bonds were issued, yet they had no higher reputation than other bonds of the same class. Nevertheless, that these Acts contained a statement of the thing in which the bonds were to be paid, led many to contend that the other bonds were to be paid differently. There was nothing in the condition of the country when the Acts were passed requiring an unusual provision in order that the loans authorized by them might be successfully negotiated; on the contrary, the national credit was better then than at periods when other loan bills were passed; nor was this the intention of any member of Congress; nor did any of the officers of the treasury department suppose that the bonds authorized were different from those issued under other Acts.

Mr. McCulloch was pronounced in his utterances on the matter. "What is the United States pledged in regard to the public debt? Is it not that it shall be paid according to the understanding between the government and the subscribers to its loans at the time the subscriptions were solicited and obtained? And can there be any question in regard to the nature of this understanding? Was it not that while the interest-bearing notes should be converted into bonds or paid in lawful money, the bonds should be paid, principal as well as interest, in coin? Did any member of the House or of the Senate, prior to 1864, in the exhaustive discussion of these bills, ever intimate that the bonds to be issued in accordance with their provisions might be paid, when redeemable, in a depreciated currency? Was there a single subscriber to the five-twenty bonds or to the 7.3 notes, which by their terms were convertible into bonds, who did not believe, and who was not given to understand by the agents of the government, that both the principal and interest of these bonds were pay-

able in coin? The bonds were negotiated with the definite understanding that they were payable in coin."

When the agents employed by the government to sell the bonds advertised them for sale, they announced that "The principal and interest would be payable in coin." They supposed that before the time arrived for paying them, specie payments would be resumed, in which case this question would not have arisen. "No one," said the Finance Committee of the Senate, who reported on this subject, "supposed that two years after the war was over greenbacks would still be depreciated." The secretary of the treasury himself made no announcement, but in May, 1864, he wrote to Mr. Hooper, a member of Congress, that it had been the constant usage of the department to redeem all coupon and registered bonds forming part of the funded or permanent debt of the United States in coin, and that he had not deviated from this usage during his administration. These bonds, therefore, were, by the usage of the government, payable in coin.

Moreover, all the States had made loans in the same manner as the government for many years, and their usage had been similar to it when paying them. Nevertheless, except Massachusetts, they now put a different construction on the laws by which they had borrowed. Although their bonds had uniformly been paid principal and interest in coin, they now held that their faith was kept by paying either principal or interest in legal-tender notes, and creditors acquiesced in this construction. So corporations and private citizens who had contracted debts which by law and custom had been previously paid in coin, considered themselves released by payment in legal tenders.

Failing to get a declaration from Congress in favor of pay-

ing these bonds in legal-tender notes, those who were at the head of this movement now sought to have the entire debt repudiated. This sentiment was strong and outspoken, and led Mr. McCulloch to say in his annual report for 1866, that "he had noticed with deep regret indications of a growing sentiment in Congress—notwithstanding the favorable exhibit which had been from time to time made of the debt-paying power of the country—in favor of the postponement of the payment of any part of the principal of the debt, until the national resources shall be so increased as to make the payment of it more easy." This sentiment spread rapidly and damaged the credit of the country, both at home and abroad, by exciting apprehensions that the good faith of the nation might not be maintained, and prevented the bonds from advancing in price, as they would have done after the maximum of the debt had been reached. It rendered funding at a low rate of interest too unpromising to be undertaken. Congress, however, came to the rescue, and in March, 1869, enacted that "in order to remove any doubt as to the purpose of the government to discharge all just obligations to the public creditors, and to settle conflicting questions and interpretations of the laws, by virtue of which such obligations have been contracted, it is hereby provided and declared, that the faith of the United States is solemnly pledged to the payment in coin, or its equivalent, not bearing interest, known as United-States notes, and of all the interest-bearing obligations of the United States, except in cases where the law authorizing the issue of any such obligation has expressly provided that the same may be paid in lawful money, or in other currency than gold or silver."¹

¹ Act, March 18, 1869, 41 Cong., first session, chap. 1.

Thus the dangerous figure of repudiation which had been boldly moving before the public for several years received a severe blow. Not that it was killed, for such a thing can not be killed by legislative enactment. It can effect something, sometimes very much, and in this instance revived the national credit, and contributed to the progress of refunding the public debt. Creditors were no longer afraid to buy, and from that hour the national credit took a strong turn upward.

The earliest portion of the funded debt matured in May, 1867. At that time \$178,001,008 of the temporary loan, certificates of indebtedness, and one- and two-year notes were due. The total maturing in 1867 was \$925,607,891. In 1868, \$604,508,341; \$100,000,000 in 1869; \$250,382,400 in the next eleven years; in 1881, \$318,268,430, and \$2,538,000 in 1895.

A funding bill was introduced into the Senate a year previous to the maturing of the first loans above mentioned. The bill proposed to fund the loan in other bonds bearing five-per-cent interest and running for ten years. The subject was discussed at considerable length, and then postponed.

The next year another bill was introduced, providing for a domestic loan of five per cent, and a foreign one at a half of one per cent lower. It also provided for funding the United-States notes, and a sinking fund. This was debated, amended and passed, but vetoed by a pocket veto of President Johnson. In 1868, another trial was made, but nothing was accomplished. Both branches were in antagonism to the Executive, and it was quite difficult to advance any important legislation.

Two years therefore had passed away since the maturity of the first great war loan, yet nothing had been done in the way of funding it at a lower rate of interest. Some of the

public debt had been paid, mainly the temporary obligations which had been rapidly maturing. One reason for the slow progress was the fell spirit of repudiation then active, and the evident desire on the part of too many to escape the honest fulfillment of the national obligations. These influences retarded funding, while they did not affect particularly the actual reduction of the debt.

When Mr. Boutwell became secretary, in March, 1869, \$1,602,671,100 of five-twenty bonds either were, or soon would be, redeemable. Between that time and December \$75,477,800 were purchased, and it was expected the government would be able to pay \$75,000,000 before the close of that fiscal year, leaving about \$1,450,000,000 to be funded.

As only \$27,000,000 of the balance of the funded debt would be due and payable before 1874, Mr. Boutwell recommended that at least \$250,000,000 of the debt "be suffered to remain either for purchase or redemption previous to 1874." This left \$1,200,000 to be funded. He recommended that a loan for this amount be made, divided into three equal portions, the first portion to be payable in fifteen years, the second twenty, and the third twenty-five years, each portion to be absolutely paid five years after the time of payment. The essential conditions of the new loan appeared to him to be the following :

1. That the principal and interest should be payable in coin.
2. That the bonds known as the five-twenty bonds should be received in exchange for the new bonds.
3. That the principal be payable in this country, and the interest payable either in the United States or in Europe, as the subscribers to the loan might desire.
4. That the rate of interest should not exceed four and a half per cent per annum.
5. That

the subscribers in Europe should receive their interest at London, Paris, Berlin, or Frankfort as they might elect. 6. That the bonds, both principal and interest, should be free from all taxes, deductions, or statements, of any sort, unless it should be thought wise to subject citizens of the United States to such tax upon income from the bonds as was imposed by the laws of the United States upon incomes derived from other money investments. "In offering the new loan, citizens and subjects of other governments should receive the strongest assurance that the interest and principal were to be paid in coin, according to the terms of the bonds issued, without any deductions or abatement whatsoever."

The secretary further recommended that in order to avoid the necessity of employing agents for negotiating the proposed loan, a liberal commission be allowed to subscribers, and that those first subscribing be permitted to select the class of bonds in which their subscription should be made; and, further, that the national banks be required to substitute bonds of the new loan for those deposited by them to secure their circulation.

Early the next year a bill "to authorize the refunding and consolidation of the national debt, to extend banking facilities, and to establish specie payments," was introduced into the Senate by Mr. Sumner. After long debate and amendment, the bill became a law.¹ The secretary was authorized to issue \$200,000,000 of bonds, payable ten years from date in coin, and bearing five per cent semi-annual interest, also payable in coin. The next year the amount was increased to \$800,000,000, and the interest was made payable quarterly. He was also authorized to issue \$300,000,000, at four and a half per cent semi-annual coin interest, while the principal was pay-

¹ Act, July 14, 1870, 41 Cong., second session, chap. 256.

able in coin fifteen years from date, and \$1,000,000,000 of bonds bearing four per cent interest, payable thirty years from their date of issue, and like the other bonds "in all respects." He was authorized to sell any of these bonds at their par value in coin, or to exchange them at par for five-twenty bonds, and one-half of one per cent of the bonds authorized was "appropriated to pay the expense of preparing, issuing, advertising, and disposing of the same."

The law declared, too, that in paying the bonds thus authorized the secretary should determine the amount and state his intention, beginning "for each successive payment with the bonds of each class last dated and numbered;" and the interest on the bonds thus selected was to "cease at the expiration of three months from the date of such notice."

The law further declared that the bonds and interest thereon should be "exempt from the payment of all taxes or duties of the United States, as well as from taxation in any form by and under State, municipal, or local authority." Mr. Boutwell well stated the two reasons why the bonds should be exempt from State and local taxes. The first reason was, if not exempt, the amount of taxes unpaid by the local authorities would be added to the interest which the government would be required to pay, and thus the nation would be compelled to provide for taxes imposed by local authorities. Secondly, as the ability to borrow money might, under some circumstances, be essential to the preservation of the government, the power should not, in times of peace and prosperity, be qualified by any concession to the State of the right to tax the means by which the national government is maintained.

The public securities had been exempt from State or municipal taxation, but the exemption had caused much irri-

tation. Congress had not by express Act exempted them; nor was any formal action necessary. It was a constitutional exemption which could not be affected or limited by the Act of any State or local government. The Supreme Court of the United States had repeatedly decided that no State could levy on money invested in any public security, or tax or assess it on the ground that such a tax was inconsistent with the power of Congress to borrow money. Nevertheless, the States had tried to tax these securities, and, in New York, the question was tried many times. A large amount of capital was invested in the national banks, and the State did not cease trying to reach it.

Thus it was believed that a vast amount of wealth which was withdrawn from the State-taxing power, and was not taxed by the national government escaped altogether. Many thought this a grave hardship. It was true that the government by not taxing it procured the use of it at a correspondingly lower rate. But this action concerning it did not suffice. Many thought that in some form, safe to the nation, it should be subjected to State taxation. Not a few were opposed to the national banking law on this ground. Various expedients had been mentioned. One was to reserve to the State the express power to levy taxes on public securities held within the State. Such a reservation, it was contended, would become a part of the contract and be valid. On the other hand, it was objected that the effect of State taxation would be that in many of the States where the taxes were high no public securities would be held, and especially in the large cities. With such a provision, it was contended, no loan could be negotiated, except at such rates of interest as would add largely to the public burdens. It was also proposed to

limit the State taxes to one per cent. This discrimination was as faulty as entire exemption, and would add to the public burdens one per cent of the entire loan.

The Finance Committee of the Senate, in 1867,¹ recommended a different plan, which was to serve, in lieu of local taxes, namely, a specific rate on the debt thereafter negotiated, and to distribute the same among the States by population. "The amount thus reserved," said the committee, "will, in the aggregate, equal the probable amount that would be collected by the States from the capital loaned to the government. From the nature of public securities being easy of concealment, readily transferred or deposited out of the State, it is probable that but a small portion would be reached by taxation; while the mode suggested would secure each State a fixed sum collected without expense, and without surrendering the power of the national government over its loans, or of impeding the ready transfer of the public securities." This adjustment, they added, would relieve the bond-holders from the reproach of enjoying State law and local privileges without contributing to the public expenses, and would increase the demand for public securities, and thus enable the government to sell them at more favorable rates.

This recommendation, however, was not favorably received.²

¹ No. 4, 40 Cong., second session. In January, 1868, a series of excellent articles, signed "Adirondack," appeared in the N. Y. Times criticising this report.

² The fifth section of the bill reported by the committee provided, "That the holder of any lawful money of the United States to the amount of one hundred dollars, or multiples of one hundred dollars, may convert the same into a bond for an equal amount, the notes so received to be held in the treasury as a part of the reserve already provided for, and the holder of any of the five-twenty bonds, or of the bonds contemplated by this Act,

One critic¹ remarked "that the principle of exempting the national debt from State taxation had prevailed throughout our whole history, and for obvious reasons. Once admit that taxes may be collected by the States upon the national debt, or that subsidies shall be collected from the people and paid to the States, under a shadow of right in these States to tax the national debt, and there will be no end to projected national debts and projects of wars to create national debts; the admission will grow into a right, and one more element of evil will be placed in that Pandora's box which political demagogism opens and closes at will."

Congress determined to adhere to its former policy, except to render yet clearer, by distinct enactment, that the public securities were free from all taxation.

The war in Europe rendered it impracticable to refund any portion of the debt for some time. The paper for the bonds was made, and the plates, yet the work of refunding was delayed. On the last day of February, 1871, public notice was given that on the 6th of March books would be opened in may demand their redemption in lawful money of the United States; and the treasurer shall redeem the same in lawful money, unless the amount of United-States notes then outstanding shall be equal to \$400,000,000." Hunt's *Merchant's Magazine* thus criticised it: "This section is obviously adopted to conciliate the inflationists. It would introduce into the currency arrangements an element of discord and confusion, whose disturbing influence in business would probably recall our worst experience during the war, when the heavy disbursements of the government, requiring five times as much currency as an equal amount of ordinary commerce, neutralized some of the worst evils of the immense issues of paper money, and of the morbid feeling during the expansion in 1863 and 1864. Once admit the principle of this scheme, and you will not be able to limit the currency to the authorized \$400,000,000." Vol. 53, p. 23.

¹ James Gallatin, *Financial Economy of the United States*, p. 16.

this country and in Europe for a subscription to the national loan. All the national banks and a large number of bankers in both countries were authorized to receive subscriptions. The first preference was given to subscribers to the five-per-cent bonds within the original limit of \$200,000,000 of five-per-cents. On the 1st of August the national banks chiefly had subscribed for \$65,775,550. In July of that year an agreement was made with foreign bankers for the remainder of the \$200,000,000, subject to the right of the national banks to subscribe for \$50,000,000 by the 20th of October. Mr. Richardson, who afterward became secretary of the treasury, was in London, and represented the government in the negotiations. The contractors had the right until the next April to take them by subscribing for \$10,000,000 at once, and for \$5,000,000 monthly during the intervening time.

How long had foreign bankers been willing to lend to our government? For a brief period. When Mr. Chase was at the head of the treasury department, thinking that gold or its equivalent must be imported, if possible, to sustain the national credit, he sent Robert J. Walker to Europe as a financial agent. He published numerous essays in English, French, and German pertaining to the wealth and resources of our country, and showing how well the national honor had been always kept. These were sent to all European bankers through whose advice investments were made. They represented the certainty of the punctual payment of the principal and interest of the five-twenty six-per-cent loans in gold. "So bitter then was the hostility of Louis Napoleon and the late Lord Palmerston to this country, that, whilst the so-called Confederate loan had nearly reached, in Europe, par in gold, our United-States stocks could find no place on the

London or Paris exchanges, and our cause no hearing in the leading press of either city." From Germany, however, came a different response. "The great masses of the people took several hundred millions of our loan at the same rates as our own citizens."¹ When the war ended, English and French bankers speedily learned the worth of Southern investments. The next time they were solicited to lend to the government, they made a favorable answer.

All the subscriptions, both home and foreign, were to be made through the national banks, certificates were to be issued therefor by them to the secretary of the treasury, and the bonds were to be lodged with the United-States treasurer for deposit.

By the 1st of August the demand for the new bonds had nearly ceased. Shortly afterward the treasury department announced that national banks making or obtaining subscriptions payable in coin would be designated as depositories of the public money on the usual condition of putting bonds in the possession of the United-States treasurer to secure such deposits, and that, at the beginning of each month, notice would be given of the redemption of an amount of bonds equal to the amount of subscriptions in coin for the preceding month, interest to cease in ninety days from the date of such notice. Furthermore, the deposits to pay for bonds called were to be drawn from the several banks proportionately. The subscribers were to receive as a commission, after paying for the cost of paper for the bonds, engraving, printing, advertising, delivery, and all other expenses, one-half of one per cent on the \$200,000,000. The commission was inadequate to lead the banks to push subscriptions with much energy, but when

¹ Letter of R. J. Walker, November 30, 1867.

the further right was granted of retaining the money subscribed until the government demanded it in payment of bonds called, a period of three months or longer, the gain was enough to lead the banks to put forth their energies, and by the end of the month all the bonds were taken. This arrangement was of advantage to all parties. The funding Act provided that the money received for the new bonds should be used only in paying for those outstanding. It also provided, that the bond-holder should have three months' notice of the intention of the government to pay. As this could be given safely only on subscriptions already secured, even if the money were paid into the treasury, there was a loss of interest for three months. By this arrangement the banks had the use of the money, while the government lost nothing. The result was the speedy taking of all the bonds offered. The money received from purchasers remained with the banks until wanted by the government for redeeming the bonds, when it was returned to the channels of circulation.

This contract for refunding continued until Mr. Bristow became secretary of the treasury, in June, 1874,¹ when he made another contract with several prominent banking houses for the sale of the five-per-cent bonds. The contracting parties were to pay par for them, and accrued interest to the date of maturity of each call for bonds, and were to receive a commission of one-quarter of one per cent on the amount of the sales, from which, however, they were to pay the expense of sending the bonds to London, and of transmitting from that place to the treasury the called bonds received in payment.²

At the time of making this contract, the five-per-cent

¹ June 2.

² Ann. Treas. Report, 1874, p. 9.

bonds were selling in small quantities in the open market, for a price slightly above par in coin, exclusive of the accrued interest; and this enhanced value of the bonds, enabled the department to obtain somewhat better terms than had been previously obtained. On the 29th of January, 1875, the contract was renewed, but so modified that the parties were to receive one-half of one per cent for selling the bonds and defraying all expense connected with the issue, including the expense of preparing the bonds.¹ After that time the refunding of the debt went on rapidly. The contracting parties subscribed for \$122,688,550, which was the balance of the "New Fives," as the loan was called, remaining not negotiated. Secretary Bristow had the pleasure of announcing that the funding of five hundred millions of six-per-cent bonds into others bearing five per cent had been accomplished, thereby saving five millions of annual interest.

During the sixteen months preceding his report, \$178,548,300 had been refunded, and the secretary of the treasury believed that the remainder of the bonds could be refunded into four-and-a-half per-cents and fours, as the funding law prescribed, within a reasonable time. By this law, however, the four-and-a-half per-cents were to be redeemable in fifteen years. He thought that the bonds would be more readily taken if they were issued as thirty-year bonds. Congress, adhering to the policy of authorizing bonds running only for a short time, declined to amend the law as the secretary had recommended.

On the 24th of August, 1876, Mr. Morrill, the successor of Mr. Bristow,² the fourth and last secretary of the treasury during the eight years of President Grant's administration, contracted

¹ Ann. Treas. Report, 1875.

² Appointed June 21, 1876.

with a syndicate of bankers for \$40,000,000 of four-and-a-half per-cents, they having the right to subscribe for the remainder, \$260,000,000, before the 30th of the following June, by notifying the secretary of the treasury, and he, on the other hand, having the right to terminate the contract at any time, on ten days' notice, after the 4th of March, 1877. The compensation was the same as under the former contract. The subscribers were to pay par and accrued interest in gold coin, matured United-States coupons, six-per-cent five-twenty bonds, or United-States gold certificates.¹ During his term of office \$90,000,000 were sold.

His successor, Mr. Sherman,² becoming convinced, in May, that he could sell the four-per-cents, gave notice that he would limit the four-and-a-half per-cents to \$200,000,000. Of this amount \$15,000,000 were sold and the coin reserved for resumption purposes. By this operation a reduction of \$2,775,000 was made on the interest account. On the 9th of June, the secretary made a new agreement for the sale of the four-per-cents.³ This was to terminate on the 30th of June, 1878, with the right on the part of the government to terminate it on ten days' notice after the end of that year. It contained the further provision that the syndicate should offer to the people of the United States, at par, and accrued interest in coin, these bonds, registered and unregistered, in denominations of fifty and one hundred dollars, for a period of thirty days from the public notice of such subscription, and to offer to the subscribers the option of paying in installments extending through three months.

¹ For full terms of contract, see *Specie Resumption and Refunding*, Ex. Doc., No. 9, 46 Cong., second session, pp. 2, 36.

² Appointed March 9, 1877.

³ *Specie Resumption*, p. 61.

Subscriptions to this loan were opened on the 16th of June, and during the next thirty days \$75,496,550 were subscribed. Of this amount \$75,000,000 were reserved for resumption purposes, and the remainder was applied in redeeming six-per-cent bonds. As soon as these subscriptions were paid, the secretary was about to issue a call for the payment of \$10,000,000 of six-per-cent bonds, when action was postponed in consequence of the renewed agitation for the repeal of the Resumption Act and the remonetization of silver, events which led the syndicate to fear that bonds could not be sold. Three days after making his contract with them, the secretary wrote an official letter, in which he said that, "As the government exacted in exchange for these bonds payment at their face in such gold coin, and as it was not to be anticipated that any future legislation of Congress, or any action of any department of the government, would sanction or tolerate the redemption of the principal of these bonds, or the payment of the interest thereon in coin of less value than the coin authorized by law at the time of the issue of the bonds, being the coin exacted by the government in exchange for the same." This letter immediately revived confidence, and the sales rapidly increased. Nevertheless, the sales would have been much greater had not the law required subscriptions to be paid in coin, which could not conveniently be obtained by the people outside the large cities. Another cause hindering sales at this time was the return of enormous quantities of American securities from abroad.

With the return of specie payments at the beginning of 1879, the gate-way was opened more widely for investors to purchase bonds, and they were not slow in acting. As the bonds were sold others were paid, and as many of them were

held in Europe, it was desirable to sell enough more in London to prevent the shipment of gold from this country to pay for those held there which were or should be called. A contract was made for this purpose, early in the year, for the sale of four-per-cents, the government agreeing to deliver them free of charge in London, where an agency was to be maintained while the contract was in force. Bonds to the amount of \$15,000,000 were thus sold. In the same month Congress authorized the exchange of four-per-cent bonds for uncalled five-twenties; less than a million, however, was exchanged under this law.

The secretary, in March, gave notice that when the remaining five-twenties should be covered by subscriptions, the sale of four-per-cents for refunding the ten-forty bonds would probably be made on less favorable terms to the purchaser. Owing partly to fears that the heavy payments falling due the next two months would create a disturbance in the money market, the sales slackened in the month of March. On the morning of the 4th of April, the amount of outstanding five-twenties not covered by subscriptions to the four-per-cents was \$59,565,700. Before the close of the day, subscriptions were received not only for the whole amount, but for \$60,919,800 more. Notwithstanding the magnitude of this operation it was soon to be eclipsed.

The next bonds that were refunded, were called the ten-forties, which bore five per cent interest, and were issued under the Act of March 3d, 1864. On the 16th of April, \$150,000,000 of the four-per-cents were offered at a premium of one-half of one per cent, the proceeds of which, as far as necessary, were to be applied in redeeming the ten-forties, and the remainder, \$44,556,300, for converting the refunding

certificates offered at the same time. The four-per-cents were also offered in exchange for the ten-forties. The next day subscriptions amounting to \$149,389,650 were received and accepted, beside \$34,755,000 received and declined, and the four-per-cent bonds were then withdrawn.¹ One subscription for \$40,000,000 of the certificates was also received and declined; for the evident purpose of the law authorizing the issue of these certificates was, so far as possible, to distribute the debt among the people. The bonds exchanged slightly exceeded two millions.

The chief criticism on this operation of the secretary was, that he should have offered a bond at par, bearing a lower rate of interest instead of a four-per-cent bond at a premium. This was a revival of the question which confronted Pitt during the war with Napoleon. Should he borrow money at three per cent, and receive only sixty per cent of the principal, or at five per cent, and receive the whole of the principal? Pitt has been sharply criticised for not borrowing more at five per cent. The question is not easily answered, for much depends on the future worth of money, and the disposition of the debt. As the government rate in this country has been lessening, probably the better policy would have been the offering of a bond at less than four per cent.

In February² of that year, Congress had authorized the issue of ten-dollar certificates bearing four per cent interest at par for lawful money, and the following month authorized their conversion into bonds, in sums of fifty dollars or its multiples. Immediately on the advance of the price of the

¹ For fuller description of this subscription, see *N. Y. Times*, April 18, 1879, and *N. Y. Tribune* of the same date.

² Act, Feb. 26, 1879.

bonds to one-half of one per cent above par, the demand for these certificates greatly increased. Offers for them at a premium corresponding to that on the bonds into which they were convertible were declined on the ground of lack of authority. To bring them within the reach of small investors their sale was restricted to independent treasury officers, and public officers bonded for that purpose, and to sums not exceeding one hundred dollars at one time. Evasions of the intent of the law and instructions, however, with the view of immediate conversion of the certificates into bonds, soon became evident, and, after continuing the farce ten days, the officers who were selling the certificates were directed to refuse them when such evasions were manifest. The entire amount was sold as rapidly as the certificates could be prepared, and before the close of the fiscal year. Of the \$40,012,750 sold, \$37,203,350 were converted into four-per-cent bonds by the end of the following October. In about two years, therefore, Mr. Sherman had refunded \$845,345,950, with an annual saving in interest of \$14,290,416. While these refunding operations were going on the government was paying double interest a portion of the time. It was paying on the new bonds, and also on the old ones, for three months after calling them, and before payment was made. Mr. Sherman recommended that the notice be shortened from three months to ten days. Congress would not change the law. Payment of double interest therefore was inevitable.¹ He did, however, escape it in part by calling bonds in expectation of the necessary funds to pay for them. To obviate any derangement of the money market from these operations, the money for the subscriptions was kept in the public depositories, and

¹ Why Double Interest was Paid, N. Y. Tribune, Dec. 28, 1878.

was, therefore, in constant use. Had it been withdrawn from them, and put into the government treasury, serious consequences could hardly have been avoided from such a depletion of the circulating medium. The arrangements for subscriptions were so perfect, and executed so wisely, that the payments to and by the government in these vast transactions were effected without disturbing a single business interest.¹

¹Some persons became alarmed because the balances held by some subscribers for the bonds were so heavy, especially the balances held by the First National Bank of New York, which had been the largest subscriber. On the 16th of December, 1878, the secretary of the treasury was directed to inform the House on the subject. Four days later, he sent an explanation, accompanied with a monthly table of the balances for eleven months. The N. Y. Times said: "It will be noticed from the above statement, that for the past nine months the average monthly balance on loan account charged against national banks acting as public depositories, was over \$37,600,000, and that of this average the First National Bank of New York is charged with a monthly balance of over \$26,000,000. . . .

"There seems to be a great deal of unnecessary alarm among members of Congress over this matter. In point of fact, the First National Bank never had the amount in coin which is stated in the secretary's schedule. The balances charged against this and other banks consist of credits to the treasury department upon the books of the banks. The matter is explained by the following narration of the transactions from which these apparent balances arise: The First National Bank is the largest operator in the refunding bonds, and was the principal American member of the syndicate for the sale of four-and-a-half per-cent bonds. That bank's subscriptions to the four-per-cent loan amount, on some days, to more than \$1,000,000. Under a circular issued last January by the secretary of the treasury, banks subscribing for the loan were not to be called upon to make their subscriptions good until ninety days from the date of subscription, the government not being required to redeem the called bonds until the expiration of that period. Now, supposing that the First National Bank subscribed for \$1,000,000 on September 1; a certificate of deposit for that amount, drawn to the order of the United-States treasurer, is forwarded to Washington,

Most of the ante-war obligations, and a large portion of the subsequent ones, had now been refunded or paid. In 1881, the "new fives," issued under the funding Act of 1870, would mature. Secretary Sherman recommended, in his annual report for 1879, that authority be given to refund them into four-per-cents, but nothing was done. The loan of February, 1861, amounting to \$13,414,000, which matured at the close of 1880, was paid with surplus revenue. The amount maturing in 1881 was \$673,224,800. In view of the requirements of the sinking fund, Mr. Sherman, believing that this could be fulfilled by using treasury-notes running from one to ten years, changed his recommendation of the former year. He said that the purchase of bonds not due involved the payment of a premium, which could be avoided by the issue of such notes. The large accumulation of money and \$1,000,000 is charged against the bank on the treasurer's books. Bonds to that amount are forwarded to the assistant treasurer at New York, to be delivered to the bank upon the receipt by the assistant treasurer of a like amount in coin, or in called bonds. If called bonds cannot be obtained, then the bank must deposit other bonds before those subscribed for will be delivered by the assistant treasurer. Thus, the government is fully insured against possibility of loss. Ninety days after the date of subscription the treasurer draws for the amount subscribed, and the transaction is closed, in most instances, without a dollar of coin being moved, because the bank gathers up the called bonds, and turns them over in payment or exchange for the new bonds. This transaction is repeated daily, and it thus happens that at the end of the month a large balance has accumulated, the amount varying according to the sale and exchange of bonds. The entire business is confined to the exchange of four or six-per-cent bonds, and, in fact, no coin is needed, and very little is used. The bonds issued are, of course, charged as having been sold for coin, and in the final settlement, the six-per-cent bonds redeemed by exchange are charged as having been purchased with coin. On the books of the department the transaction appears on a coin basis, because the accounts could be kept in no other way."—Dec. 21, 1878.

seeking investments afforded a favorable opportunity for selling them at a low rate of interest. Congress spent much time over a bill for retiring the bonds, and issuing new ones bearing three-and-a-half per cent interest, and running for forty years before the government had the option of payment.¹ The bill, however, was vetoed, and Congress adjourned without further action.

Mr. Windom,² who succeeded Mr. Sherman as secretary of the treasury, conceived the plan of continuing the bonds at the pleasure of the government, though bearing the lower rate of three and a half per cent interest. Those who desired to do this sent their bonds to Washington, and new ones were issued therefor, with the fact of their continuance stamped across their face. This plan was highly successful, the bonds were promptly sent and exchanged, while the foreign holders who preferred payment were paid, for which ample resources existed in the treasury.³

Afterward, when the national banking associations were re-chartered, they were granted the privilege of exchanging the "Windoms" or three-and-a-half per-cents for other bonds bearing three per cent interest, to which was given the advantage that they should not be called until all the three-and-a-half per-cents were paid. The amount exchanged was so great, as well as the surplus that could be devoted to paying the

¹ For the bill, see 10 Cong. Record, p. 989.

² Mr. Windom, who was appointed March 5, 1881, retired Nov. 13, 1881, and was succeeded by Mr. Folger the next day. On the 4th of September, 1884, Mr. Gresham was appointed, and held the office until the 27th of October following. On the 28th of the same month, Mr. McCulloch returned and served during the remainder of President Arthur's administration.

³ See Mr. Windom's letter to Am. Bankers Association, giving an account of his refunding of the bonds. Proceedings, 1881, p. 26.

three-and-a-half per-cents, that in a short time only the threes remained within the pleasure of the government to discharge.

It happened that at the time fixed for concluding the history of our finances, Mr. McCulloch, who was at the head of the treasury department at the close of the war, and when the debt reached its greatest height, was also secretary of the treasury. He remarked that it was in the highest degree gratifying to him to notice the great reduction that had been made in the interval. On August 31, 1865, the indebtedness less cash in the treasury was \$2,756,431,571, the annual interest charge, \$150,977,697.87, and the average rate paid was 6.34 per cent. On November 1, 1868, near the close of his first term of service as secretary, the debt less cash in the treasury was \$2,484,935,552.82, the annual interest charge had been reduced to \$126,408,343, and the average rate paid was 5.8 per cent. Sixteen years later, on November 1, 1884, the net debt was \$1,408,482,948.69, the interest charge was only \$47,323,831.79, and the average rate paid was 3.92 per cent. The four following lines are unparalleled in the history of financial prose.

Reduction of debt in sixteen years	.	.	.	.	\$1,076,452,604.13
Reduction of annual interest charge	.	.	.	.	79,084,511.50
Reduction of debt in nineteen years	.	.	.	.	1,347,948,622.74
Reduction of annual interest charge	.	.	.	.	103,653,866.37

“In the management of its debt” said Mr. McCulloch,¹ “the United States has been an example to the world. Nothing has so much surprised European statesmen as the fact that immediately after the termination of one of the most expensive and, in some respects, exhaustive wars that has ever been carried on, the United States should have commenced the

¹ Ann. Treas. Report, 1884.

payment of its debt and continued its reduction through all reverses until nearly one-half of it has been paid ; that reduction in the rate of interest has kept pace with the reduction of the principal ; that within a period of nineteen years the debt, which it was feared would be a heavy and never-ending burden upon the people, has been so managed as to be no longer burdensome. It is true that all this has been effected by heavy taxes, but it is also true that these taxes have neither checked enterprise nor retarded growth."

And now for the climax of this wonderful story of national debt-paying. A large surplus was in the treasury at the time of Mr. McCulloch's retirement, which has been steadily growing ; yet neither he dared, nor has his successor, to use a dollar to reduce the debt lest the standard of payment should be changed from gold to silver. That a nation so opulent, and with such high rational expectations, so facile in borrowing and so joyously prompt in paying, should adopt a policy for debasing its standard of value and continue it in the clear knowledge of accomplishing this result, is one of those senseless paradoxes which too often have given the otherwise brilliant coloring of our financial history a darker hue.

CHAPTER IV.

THE NATIONAL BANKING SYSTEM.

AFTER Congress gave a preference in the spring of 1865 to the State banks which should apply before the 1st of July following for conversion into national banking associations, "nearly all of the State banks voluntarily changed." This is the language of the comptroller in his annual report for that year. He was correct; but when we consider the inducements offered to them to change, and the heavy burdens they would have borne if they had not, the language is strained. Clearly seeing their disadvantage in the future race for business if they remained State institutions, they changed so rapidly that on the 1st of November nine hundred and twenty-two of the one thousand six hundred national banks were converted ones. Thus in two years and a half from the time of organizing the first national bank, the national system became firmly established. Born in national agony, and always encompassed with enemies, the system has proved its superiority to every other tried in our country, and, like a good man, has won more and more popularity "with the process of the suns."

The first effect of converting the State banks was to diminish the aggregate bank circulation, for the reason that no national currency was delivered to a converted bank until its former circulation was reduced below the amount prescribed

by the national law. As several of the States which authorized the conversion of their banks gave them authority to continue the issue of their State circulation for a limited period after effecting the change, the action of the comptroller caused much complaint. Yet he was unquestionably right; they were bound to discharge all their former obligations, including the redemption of their circulation, and State enactments granting privileges or imposing restrictions contrary to the national banking law were void.

On the 1st of October, 1865, the amount of national bank-notes in circulation was \$171,321,903, beside \$19,525,152 in their possession and not issued. The outstanding State bank-notes at that date were \$78,867,575, and the legal tender and fractional currency amounted to \$704,584,658.

As we have seen, when Congress first discussed the bill for establishing the system, one of the strongest objections was the imperfect method for redeeming the circulation. This imperfection was acknowledged by the comptroller, the head of the treasury, and other persons who were engaged in administering the law. When it was revised the next year a step in advance was taken. Mr. Clarke, who succeeded Mr. McCulloch as comptroller, recommended that the banks be required to redeem their notes in "the great financial and commercial centres of the country, New York, Boston, and Philadelphia." This recommendation was heartily indorsed by the secretary. There were very few banks outside New York, Boston, and Philadelphia, which did not keep their chief balances in one of them, as a regular demand existed at that time for exchange on those cities. It was contended that where the current of trade required the banks to keep accounts for their own accommodation and that of their customers and

the public, there should redemptions be made. A bill was introduced embodying the comptroller's recommendation, but the banks were opposed to it and prevented its passage.

The next year the comptroller renewed his recommendation. He declared that when the notes became redeemable at a common centre, which should be the centre of trade, their amount would be "regulated strictly by the demand." When the volume was greater than needful to do the business of the country, the banks would be required to redeem the surplus and it would be retired. When trade was active and more currency was needed, the banks would expand their issues, and redemptions would not be demanded until the season of activity was over. If all the banks were required to conform to a uniform standard of responsibility, the burden, equally divided among all in proportion to their circulation, would be light, because the aggregate redemption at any time would not exceed the surplus of notes in circulation; if such a rule were not established, the burden would be unequally borne, and would fall most heavily on those banks which conformed to the highest standard, compelling them, by the frequent return of their notes, to contract their issues, while the remote banks would be tempted to undue expansion by the difficulty and expense of returning their notes for redemption. One effect, therefore, would be an overflow of the inferior currency.

The strongest objection raised at this time to a central redeeming agency was the rendering of the country banks tributary to those of New York. This objection, by many, was regarded groundless, but the danger could have been entirely averted by organizing a national bank in New-York City, having no circulation, and acting as the redeeming agency of the country, and the clearing-house of all the national bank-notes

in circulation. This plan was recommended by Comptroller Hulburd. The national banks should own the stock and manage it for their own interests. One department, he said, should be devoted exclusively to redemptions and exchanges of currency, another to a general banking business. "Such an institution would prove of incalculable benefit to the banking, commercial, and industrial interests of the country. It would place the bank circulation of the country at once upon the soundest footing, and demonstrate practically the fact that the banks stand ready to make their issues not only redeemable, but actually convertible at all times in the great markets of the Union."

These recommendations, like those previously made, did not fructify. One reason, beside those mentioned, was, the legal-tender notes in which bank-notes were redeemable, possessed no higher value than the other kind. There was, therefore, not that deep interest in the matter that would have existed had the redemption been in gold or silver. At that time it was simply the substitution of one kind of notes for another. Moreover, the amount of bank-notes that could be issued was circumscribed, so there was no danger of unauthorized inflation. The arguments for a central redemption were applicable to a bank currency system very different from the one existing.

The former systems contained no restriction on the amount that could be issued, and therefore prompt and easy redemption was necessary to guard against an over-issue. The amount of currency under those systems was regulated in theory by the requirements of business, while the national system was introduced with a fixed maximum limit. By the State systems, the notes of banks located outside New England

and New York were redeemable only at the counters of the issuing banks. The notes of such banks in ordinary times came back slowly ; in truth, it may be said that nearly two-thirds of the banks of the country did not redeem their notes. The New England banks, though, had a different system of redemption, redeeming not only over their counters, but also at the Suffolk Bank, in Boston, which received as a compensation, the profits on the money sent for redeeming bank circulation. By the New-York system, notes were redeemed at par at their place of issue, and at one-quarter of one per cent discount in New-York City, Troy, and Albany. Both of these systems were quite satisfactory, but would have been less effective had they embraced all the banks of the country. The Suffolk system was limited to five hundred banks in six States, having an aggregate circulation of \$500,000,000 ; the New-York system was limited to the banks of a single State.

Some reasons did truly exist for perfecting the mode of redeeming national bank-notes. One reason was that persons desired occasionally to exchange them for legal-tender notes to pay debts when the other kind would not suffice. Another reason was that banks occasionally wished to exchange bank-notes for legal-tender notes in order to replenish their reserve. A much more potent reason for providing an effective mode of redemption was to exchange soiled and mutilated notes for fresh ones. The mode of redemption first devised, even with the improvement of the following year, was not sufficiently active to drive the notes into the places designated for redemption. The entire stream of circulation became polluted, and the need of purifying it after a short time was manifest. Not until 1874¹ did Congress enact that the bank circulation

¹ Act, June 20, 43 Cong., first session, chap. 343.

should be redeemed by the United-States treasurer at Washington. To accomplish this end the banks were required to deposit with him five per cent of their circulation in lawful money, which was counted as a part of their lawful reserve. What the law did to purify the polluted stream of circulation may be seen from the following table. The amount of mutilated notes returned to the comptroller's office for destruction for the years ending October 31, was :

1869	.	.	.	.	.	.	.	\$8,603,729
1870	.	.	.	.	.	.	.	14,305,689
1871	.	.	.	.	.	.	.	24,344,047
1872	.	.	.	.	.	.	.	30,211,720
1873	.	.	.	.	.	.	.	36,433,171
1874	.	.	.	.	.	.	.	49,939,741
1875	.	.	.	.	.	.	.	137,697,696
1876	.	.	.	.	.	.	.	98,672,716

The annual quantity since returned has been much less than for any year above mentioned. The banks have paid the expense of redemption, and the mode has proved simple and effective. A reserve fund of money must be kept somewhere, and this can be done as safely by the government and at Washington, as by the banks and in New York. It is generally admitted that the mode of redemption thus established after ten years of thought bestowed on the matter is the best practicable, and is not likely to be soon changed.

Although the banks were relieved from keeping in their vaults a reserve to redeem their circulation, they were required to keep the same reserve as before for the payment of deposits. As the agencies for redeeming the circulation were abolished, it was the clear design of the law that the country banks thereafter should themselves keep that portion of their reserve which previously had been kept with their redemption

agencies. In other words, as the government had become the sole redeeming agent with which all banks kept a redemption fund to the amount of five per cent of their circulation, it was not necessary for any bank to keep a fund elsewhere for that purpose. But the law was not changed which permitted the banks in the redemption cities "to keep one-half their lawful-money reserve in cash deposits in the city of New York." The operation of the law, therefore, was, that the country banks were required to keep a fund equal to five per cent of their circulation at Washington, and another fund of ten per cent of their circulation and deposits at home. The banks in the redemption cities must keep a similar reserve fund at Washington, and another of ten per cent in their own vaults.

The keeping of a large portion of the reserves of the banks outside New-York City with the banks located there continued. This reserve feature of the system excited much bank opposition for a long period. The requirements of many of the States had been very vague and loose. There were indeed some exceptions. The States of Massachusetts and Louisiana particularly required the keeping of an ample reserve. New York did not have such a requirement. The country banks of that State, however, were required to redeem their notes in the city of New York in specie, and an examination of their returns showed that while they usually kept only about two and a half per cent of circulation and deposits in their vaults, they did keep on deposit with their city correspondents nearly as large portion of reserve as they do now under the national system.

Those who at an early date advocated a free banking law and the expansion of the currency general, also favored quite generally the repeal of all reserve regulations. In truth, they favored the freest kind of banking. They did not believe in

creating reservoirs for dry times, but in letting the stream of circulation run without hindrance, and if that were not enough, to open the government windows and deluge the land with more. In short, they contended that whatever might be lacking, there ought not to be a lack of notes so long as a government, paper, printing presses and labor existed.

Nor was this position confined solely to those who wanted cheap money because they had debts to pay, or stocks to sell, or who believed that it was a sure remedy for the hard times. Some banks entertained the doctrine. They claimed that the directors and managers of the banks, and not Congress, were the best judges of the amount of money that should be loaned, or of the amount that should be held on hand for the protection of their creditors; that the duty of the government was performed when it protected the billholder from loss, and that the depositor or other creditor should protect himself. They also claimed that such laws prevented the banks from extending accommodations to legitimate business interests, and consequently they suffered. Such banks, therefore, were desirous of having the restriction surrounding the reserve removed.

On the other hand, a much larger number heartily approved this feature of the system. The former class of banks, in truth, were opposed because they wished to loan all their money, while the latter class, which included the conservative banks, supported the existing policy. Even if no law had existed on the subject, they would have maintained such a reserve, for under the State systems, when no such provision existed, they did so. For them, indeed, such a law was not needed; it was, though, for the banks that did not like it. They wished to loan all they could, and too much, and the law stood in their way.

The reserves which the banks outside New-York City were required to keep were sent in large amounts, though irregularly, to New York. When business was dull and outside banks could not employ their funds profitably, they were sent to New York to await the revival of business. The banks in New York having no legitimate way for employing the money at such times, and threatened with the loss of interest which they had promised to pay thereon, loaned it to stock brokers. Thus the banks tempted the brokers to buy stocks by offering them money at low rates. On the other hand, as these loans were made on very short time, the lending banks could always obtain funds if they were wanted to supply the demand of the country banks. If this way had not been open to the New-York banks for employing their deposits they could not have afforded to pay interest on them, and they would have been less profitable; on the other hand, this practice stimulated speculation and enhanced the danger of monetary panics. A bank would not have paid interest on "country balances," as they were called, if they could not be used, and the banks would not have dared loan a considerable portion of them on time. All loans on call were to speculators. No other persons had such a use for money. No merchant or manufacturer would borrow in that way. This striking fact, therefore, appears—while the banking law wisely provided for the maintenance of an adequate reserve, a very large portion of it was actually used by New-York speculators. Though this fact was well known, and caused much comment, no legislation was attempted. In 1873, when a panic broke out in that city, caused by a sudden demand of the country banks for their reserves, the New-York banks found great difficulty in responding. The \$60,000,000 of

call loans on which they relied for an emergency of this kind "were entirely unavailable." The banks held collaterals, it is true, for their loans, but these shrank so rapidly in value that the banks could not sell them except at a large sacrifice. This is one of the peculiarities of that kind of loan. In good times nothing is safer, because the bank daily knows the worth of the collateral, while an ordinary borrower may deceive a bank concerning his real condition. In bad times the entire list of stocks is apt to shrink, but the credit and ability of merchants do not, and so the banks have learned from much experience that while both kinds of loans have their advantages, the ordinary mercantile ones, in the long aggregate, are the safest. Now the banks found themselves in this condition; they could not afford to sell their collaterals, and so a meeting of the clearing-house association was held, at which it was determined to issue clearing-house certificates, properly secured, to the banks that wanted them, and use them as money among themselves. The plan had been tried before, and has been since; a new kind of money was extemporized for the occasion, which proved effective.

It was clearly seen how all the mischief had been caused, and the remedy was apparent—namely, to stop paying interest on deposits.¹ Of course, if this had been done, the country banks would have kept their deposits at home, and the New-York banks would not have had the use of them. Two parties exist to this question; it has been discussed numberless times, but not settled, and probably never will be. The

¹ A committee appointed by the New-York Clearing-house Association in 1873, recommended "that payment of interest upon deposits, either directly or indirectly, be entirely prohibited." A similar report was made in 1884. See 39 Bank. Mag., p. 86.

prudent bankers, who are content with fair profits, condemn the practice ; the banks that wish to make the most they can, notwithstanding the risks they clearly see must be incurred, favor their payment.

Those who were opposed to legal regulations concerning the reserve were likewise opposed to bank examinations. The law, at the outset, required these to be made, and they have always been continued. The strong and well-managed banks have always favored publicity, the weaker and more daring, with some exceptions, have been opposed to it. The country was divided into twenty-five districts, and an examiner was appointed for each district. Instructions were issued to them by the first comptroller of the currency, Mr. McCulloch, and with longer experience greater efficiency has been attained in conducting examinations. "This official inquiry," said Comptroller Cannon, in the annual report for 1884, "into the affairs of a national bank, does not end with the mere inspection of the cash, bills receivable, books and accounts of the association, but the examiners are instructed to closely scrutinize the business of the bank, to investigate the standing and fitness for their positions of the persons to whom the management of the affairs of the association are intrusted, and in the manner in which the business is usually conducted, whether prudently or otherwise ; to ascertain, as far as possible, the character of the loans and discounts of the bank, and what losses, if any, have been, or are likely to be, sustained."

On the history of bank examinations we cannot dwell ; if some losses have occurred which more efficient examinations would have prevented, they have, doubtless, prevented the happening of far greater losses. The fact that the strongest

and best-managed banks favor such examinations is proof of their need, and that they are a check on operations that otherwise would be undertaken.

Albert Gallatin wrote, in 1831, "Another great guarantee against improper management is the obligation to make public annual statements of the situation of the banks. The mystery with which it was formerly thought necessary to conceal the operations of those institutions has been one of the most prolific causes of erroneous opinions on that subject, and of mismanagement on their part. . . . Publicity is, in most cases, one of the best checks that can be devised ; it inspires confidence and strengthens credit, whilst concealment begets distrust, and often engenders unjust suspicions."¹ The reports and examinations required by the government have done much to let the public inside the banks, and to show how they are managed. The result has been most beneficial. In no country in the world has a banking system been so open. Confidence in the banks is greater where it is seen that they are true to their charters of incorporation, and the public will always regard them with more favor than if they live in a tomb of concealment.

The year after perfecting the mode of redeeming the bank circulation, the restriction on the amount that could be issued was removed.² Congress had acted wisely in clarifying the circulation before thus enlarging the stream. In the interval the original limit of \$300,000,000 had been twice increased, in order to equalize the bank circulation among the States, the reason for which is worth explanation.

¹ Considerations on the Currency and Banking System, p. 70. See also Comp. Knox's Report, 1881.

² Act, Jan. 14, 1875, 43 Cong., second session, chap. 15, sec. 3. This was the Act which provided for the resumption of specie payments.

The original Act apportioning one-half of the bank-note circulation on the basis of population, and the other half on that of banking capital, resources and business, was repealed in 1864, and the distribution of the circulation was left to the discretion of the comptroller.¹ The next year this feature of the original law was restored, at the same time the internal revenue law provided that all State banks which applied before the first of July to become national banking associations should have the preference in obtaining a circulation. The two amendments were not harmonious, and if the apportionment had been made by the original law many of the converted State banks could not have obtained as large circulation as they could by the revival of the original law. But, as it seemed to be the intention and policy of the law providing for the conversion of the State banks, so the comptroller thought, to absorb all of them rather than to create new banks in addition, the comptroller permitted the conversion of State banks without limitation. He was wrong,² and the effect of his action was a very unequal distribution of the currency, some of the States receiving far more than their share by the law of apportionment, and leaving but a very limited amount to be awarded to the Southern and to some of the Western States. The government having assumed control of the currency, it was obviously its duty to provide banking facilities to all sections. As the Southern States were in rebellion when the national banking system was launched, they were too late to employ it in their section of the country. The comptroller maintained that the deficiency should be supplied, first, because it was important to all sections of the country,

¹ Comptroller's Report, 1866.

² Sherman's Speeches, pp. 214, 216, 222.

particularly to the Northern States, that the South should be supplied with all the facilities necessary for the production of the great staples of that section, because their shipment abroad would reduce the exportation of gold. Secondly, although to a limited extent, means were supplied by capitalists from other sections for Southern productions, yet the supply was not equal to the demand, and foreign capitalists were thus enabled to gain entire control over a very large proportion of valuable products, thereby gaining large profits, and leaving in the country barely the cost of production. This state of things caused much discontent and dissatisfaction among the producers. The third reason given was, that prosperous industry was the most speedy and certain remedy for the existing evils in the Southern States.

Two plans were proposed for supplying the South with banking facilities. One plan was to equalize the existing circulation among the States and Territories, and the other was to increase the amount. Two objections were raised to the first plan; the first was the right of Congress to withdraw circulation from banks that had issued it; the second, and stronger, was the impracticability of withdrawing a sufficient quantity of the bank-notes then in circulation rapidly enough to permit the issuing of other notes to banks in the South and West in time to furnish the relief desired. This plan, however, had the approval of the secretary of the treasury, Mr. McCulloch. The comptroller, on the other hand, favored an increase, but so adjusted that the amount should not exceed, "at any time, or in any month," the amount of legal-tender notes withdrawn by the law which at that time authorized their contraction.

The plan adopted was a compromise. The sum of \$54,000,-

000 was to be furnished to the banking associations then existing, or thereafter organized in "those States and Territories having less than their proportion under the apportionment contemplated by the provisions" of the Act of March 3, 1865, if the applications were made within a year, otherwise the comptroller could issue it to other banking associations applying for the same, giving preferences to those having the greatest deficiency.¹ After the whole amount should be distributed, \$25,000,000 were to be withdrawn from those banks which had an excess, and distributed among other banks in States having less than their proportion.

Such an increase of bank circulation would have enlarged the volume of currency if the law had not provided that a similar amount of the three-per-cent certificates, issued in 1867 and 1868, and held mostly by the banks, should be cancelled.² These certificates were payable in lawful money, and were authorized for the purpose of redeeming the compound-interest notes. They largely entered into the reserve of the banks; no effect, therefore, was wrought on the quantity of circulation; the three-per-cent certificates, which were a somewhat dangerous loan, because payment could be demanded at any time, were supplanted by national bank circulation.

The additional circulation was soon issued, and the comptroller made preparations for drawing \$25,000,000 from the banks having an excess. It would be principally taken from the banks in the States of Massachusetts, Rhode Island, and Connecticut.³ If withdrawn, the circulation of no bank in either of those States would have exceeded \$300,000. When carefully studied, the law was found, like many a previous

¹ Act, July 12, 1870, 41 Cong., second session, chap. 252.

² *Ibid.*, section 2. ³ Sen. Mis. Doc., No. 100, 39 Cong., first session.

one, far more difficult to execute than to enact. It was quite impossible for the banks to respond if the comptroller should make requisition on them, because their notes were scattered throughout the country. If they did not comply with such a requisition within a year, the comptroller was empowered to sell a sufficient amount of bonds belonging to the banks and held by the government, and redeem their notes as they came into the treasury, until the whole amount required was obtained. But the notes, as the comptroller remarked, would not come to the treasury for redemption unless first assorted by the brokers, and resold by them to new national banks about to be organized. This would encourage the objectionable practice of authorizing new national banks with circulation, on the condition that currency should be purchased of the brokers in the market at a premium. The comptroller recommended a repeal of the law, and the issue of \$5,000,000 of additional circulation annually, for five years.

The majority in Congress were eager to increase the bank-note circulation, but President Grant was not, for he vetoed a bill which increased the amount \$46,000,000. Congress then enacted that \$55,000,000 should be withdrawn from the banks having more than their proportion, and be redistributed to those which had received less than theirs. That law also gave the banks authority to withdraw their circulating notes in whole or in part, by depositing them with the United-States treasurer in sums of not less than \$9000, and of withdrawing the bonds deposited to secure them.¹ No authority had been previously granted to the banks for withdrawing their circulation. Some of them withdrew their circulation, while new banks deposited bonds and received the circulation

¹ Act, June 20, 1874.

to which they were entitled. The retiring of the circulation, however, went on more rapidly than the issuing of additional, so that, in truth, it was not necessary to make requisition on the Eastern banks to surrender a dollar. The circulation was largest on December 1, 1874, amounting to \$352,394,346. After enacting the law of June, 1874, the circulation decreased \$30,869,655 before the end of 1877.¹ After that period it began to increase, though never ascended the figures just stated. In 1881 there was a notable decrease, occasioned by the action of Congress. An Act was passed authorizing the issue of a three-per-cent bond for refunding purposes, and requiring the banks to deposit it as security for their circulating notes, and repealing the law of June, 1874, authorizing the banks to deposit lawful money and withdraw their bonds. The Act was vetoed, but one hundred and forty-one banks not knowing what would be its fate, and preferring to get their bonds to depositing others bearing three per cent interest, promptly deposited \$18,764,434 of legal-tender notes. They were located in twenty-four States. About one-third of the bonds was re-deposited, and for several months the total circulation of these banks was less than \$7,000,000. They were charged with depositing legal-tender notes, and withdrawing their bonds in order to derange the money market, though there was no proof to sustain it. The sole reason was to get possession of their bonds.

¹ Comptroller Knox said, in his Report for 1878, "Since the passage of the Act of June 20, 1874, the national banks, so far from considering the privilege of issuing circulation a profitable monopoly, have voluntarily surrendered \$66,237,323 of their notes, which is \$29,463,467 more than has been issued to all of the banks organized since that date, while one hundred and forty-four banks, with capital stock amounting to \$15,517,000, and a circulation of \$9,190,718, have gone into voluntary liquidation."—p. 145.

In 1875, the year after authorizing an increase of \$55,000,000 of bank-notes, the restriction on their issue was removed, and the secretary of the treasury was required to retire legal-tender notes to the amount of eighty per cent of the national bank-notes thereafter issued, until the amount was reduced to \$300,000,000. When they had taken out \$44,148,730 of such additional circulation, and legal-tender notes to the amount of eighty per cent, or \$35,318,984, had been retired, Congress declared that it should not "be lawful for the secretary of the treasury, or other officer under him, to cancel or retire any more of the United States legal-tender notes," and when redeemed or received into the treasury under any law, from any source whatever, they should "belong to the United States," and should "not be retired, cancelled, or destroyed," but "re-issued, and paid out again and kept in circulation."¹ When enacted, \$346,681,016 of legal-tender notes were outstanding, nor has the law since been changed.

As the government-bonds appreciated in value, the interest of the banks to buy or to retain them as a basis for issuing circulating notes constantly declined. With each advance in the premium, the inducement was stronger to sell their bonds and make sure of their profit. Moreover, the operations of the government in paying its bonds rapidly had the same effect. There was not much certainty concerning the premium on short-time bonds. The probability was that the government would call them as soon as they were due, and this affected their premium. Hence the desire of the banks to make all they could by selling their bonds. The question of retaining them and continuing their circulation, or of selling them and of getting their profits, was discussed among

¹ Res., May 31, 1878, 45 Cong., second session, No. 65.

the banks constantly. The high premium on these bonds also had the effect of checking the amount of circulation.

The fact that the circulation has been declining ever since 1875, with an occasional short turn, is proof conclusive that, however large may have been the profits of national banking, their notes for a considerable period have not yielded them much profit. For ten years no restriction on circulation has existed, and yet the amount has declined in the face of a rapidly increasing population and augmenting business. What might have been the increase had not the national securities commanded so high a premium, or had their duration been more permanent, cannot be foretold. It is certain that both causes have been barriers against an increase of the bank circulation.

Although the proof has thus clearly existed that bank circulation was not very profitable, a ceaseless war has been waged against them from the time of their organization, because they were permitted to issue notes without paying for the privilege. Yet the government did not grant a privilege not enjoyed by banks as State institutions. The people, however, knew much less about their sources of profits when they were under State laws. Of course, the people knew something about the banks, particularly that they did not always redeem their notes, and charged high rates of interest for money whenever they could. These facts were well known. One of the first things discovered by the people, after the creation of national banks, was, that they gained three profits, one profit on their bonds deposited as the basis for their circulation, another on their circulation, and a third on their deposits. Although this had always been the case, the people had not learned the fact. Not much

was said concerning the latter source of profit, but the double profit on bonds and circulation caused endless agitation. It led many to make war on the banks in newspapers, speeches, and pamphlets. At times the agitation was very fierce; at others, it quite died away. The principal contention was to compel the banks to relinquish their circulation. In Congress and elsewhere, this cry was constantly heard. Some banks were so moved that they did withdraw their circulation on this account. As we have already seen, after the law of June, 1874, the banks began to retire their circulation, but not solely because the circulation was unprofitable. Many reasons combined. One reason was because there was more profit in selling the bonds at the premium they commanded than in keeping them. With the resumption of specie payments the difference between gold and paper would disappear, and this would be a gain to the bank selling them. In many cases, deposits grew rapidly, and banks preferred to make their profits on these. Many banks never took out any circulation, although entitled to it. The greater fact, therefore, is settled beyond question, that another course was more profitable to the banks than the retaining of their circulation, so it was withdrawn. This was particularly the case with banks in the large cities.

Although the action of the banks showed conclusively that their profit on circulation was not large, the attack was continued. Mr. Knox, the comptroller of the currency from 1872 to 1883, showed again and again in his reports the smallness of these profits, yet no proof sufficed. The debates of Congress were frequent on taking away this privilege from the banks, nor is the contest ended.

One reason, constantly urged, was that the government

would be the gainer by retiring the bank-notes and putting out legal tenders in their place in payment for the national debt. Thus the debt and interest charge would both be reduced. This was the strongest reason given.

Another reason was that the banks were profitable monopolies, and, therefore, not justifiable by our institutions. This assertion was not true. It is true, that in the beginning the amount was limited to \$300,000,000. It is also true that Mr. Clarke, the second comptroller of the currency, erred in distributing the circulation. Had he executed the law as Congress intended, there would have been no inequality. Nevertheless, the full amount of \$300,000,000 was not taken until November, 1868, and in 1870, Congress added \$54,000,000, beside requiring the old banks to surrender \$25,000,000 more if this were needed. After that the banks took out new circulation, and, in 1874, the maximum limit was nearly reached. But after the law of that year was passed, permitting banks to retire a portion, or all, of their circulation, the attorney-general decided that new circulation could be issued in place of that retired, and since that time the banks could get all the circulation they desired by depositing the requisite security. It was asserted again and again in Congressional debate, particularly in the long currency debate in 1873-4, that the South needed more currency, and that the restriction should be removed. What the South really needed was more capital, for there was hardly a time when that section could not have obtained more currency if it had possessed the capital with which to buy the bonds on which the circulation is based. This fundamental error ran through that long and tedious debate, one of the longest and dreariest during the period covered by this volume. The

South was poor, and needed the impregnation of capital to quicken her industries, but no magical power anywhere existed for creating it from nothing. If worlds are made from nothing, as some believe, surely capital is the product of man. Government can destroy, but cannot create it. The government might have borrowed capital and loaned it to the South ; could have transferred it from one person to another, nothing more.

Among the schemes devised for supplanting the national bank circulation was the issue of \$400,000,000 of legal-tender notes, interchangeable, in sums of fifty dollars, for treasury-notes, and bearing interest at the rate of 3.65 per annum, or one cent per day on a hundred dollars, and a repeal of all Acts relating to the resumption of payments in specie. It was proposed to purchase the bonds of the government with the notes thus issued. This scheme was much discussed. The objection urged was that the legal-tender notes would be converted into interest-bearing notes almost as soon as issued, like the small treasury-notes issued in 1815. "The non-interest-bearing certificates of deposit," said Mr. Knox, "now held by the banks, and amounting to \$50,880,000, will at once be converted into greenbacks, and these, together with \$150,000,000 of cash reserve, also held by the different banks and bankers of the country, will be speedily exchanged for 3.65 notes. These latter notes will be used by every clearing-house in the country for the payment of balances, and a large proportion of the circulation will then consist of the new inter-convertible interest-bearing notes, so that the whole authorized issue of these notes will soon be in demand."

If Congress had favored the scheme, many of the banks would have liquidated, and their loans would have been called

for the purpose of distributing their capital and surplus among their stockholders. Doubtless many would have reorganized as State banks and private bankers.

Opposition to the banks was now at its height. Many things had happened to inflame the feeling against them. The year before a financial storm had swept over the country, and the suffering therefrom was keen and universal. The event was largely attributed to the intimate relations existing between the banks of New-York City and the members of the New-York Stock Exchange, whereby the currency was suddenly contracted, or "locked up," in the language of the day, and brokers were preferred to merchants by the banks as borrowers of money.¹ One of these lock-ups had been a matter of Congressional investigation in 1872. A director of the Tenth National Bank of New York was a special partner in three firms, with whom he left his money to be loaned. On a day specified he directed them to call in his money, which they did. In the afternoon he went to his bank with the checks received from the three firms, amounting to \$4,100,000. He requested the president to put them through the clearing-house the next morning. This was done, the money was paid ; but instead of putting it into the bank on deposit, he carried it away. The whole transaction was outside the regular and usual business of the bank, and was simply an arrangement by which it withdrew over \$4,000,000 of legal-tender notes from circulation for a director of the concern, whose avowed object in having it done, as he himself testified before the investigating committee,² "was to cause a string-

¹ The Locking-up Process in the Money Market. *The Financier*, March 2, 1872.

² House Report, No. 5, 42 Cong., third session.

ency in the money market for the purpose of bringing about a decline in the price of stocks," of which he was short. "It affected not only the banks and the business community of the city of New York, but that city being the principal centre of the monetary operations of the whole country, the stringency produced there in the money market extended to other cities, and affected more or less injuriously every branch of business requiring the use of money throughout the country." These operations were repeated more than once, and were strongly condemned in every quarter outside Wall street. While some of the banks were thus carefully attending to the wants of speculators they were less mindful of the wants of the mercantile class. An eminent merchant of New York, and for several years a member of Congress, related the following story, which illustrated the discrimination made at this time between the two classes of borrowers. A pet firm of brokers who went down in the crash of 1873 were found to be in debt nearly \$15,000,000. That firm had reorganized only a month or two before, with a capital of one or two hundred thousand dollars; but it was able to borrow of banks and others, on stock held only for speculation, about \$14,000,000. At the same time a commercial firm of long standing, and having more than half a million of capital, applied to one of the largest national banks for the discount of \$24,000 of business paper having less than thirty days to run, and was politely put off with one-half the amount. "The broker, for gamblers, got \$14,000,000; the merchant, for honest business, got \$12,000, or less than a thousand for a million." The banks that served the speculators first and the merchants last were a small minority, but their conduct was so notorious as to taint all. The comptrollers of the currency from the

outset did not hesitate to condemn the practice of lending money for speculative uses, and to over-certifying checks, which was another feature of the same business. This practice, though, did not originate with the national banks. In the beginning, a certification was not considered as legally binding the certifying bank to pay the check. For many years it simply signified or connoted hardly anything more than information, and the amount of the check when certified was not charged to the account of the drawer until it was presented for payment. After the New-York Clearing-house was organized, in 1854, it became the custom to present checks, and also bills receivable, or acceptances, on the day of maturity at the bank where they made payable for certification. The bill and checks certified were then returned to the bank messenger who had presented them, and on the following morning were transmitted to the clearing-house with other exchanges.

These certifications were confined for a long time to mercantile and commercial transactions, and had they never gone further would have occasioned no adverse criticism.¹ The

¹ "The system of certifying checks may be said to have originated in New York. Only a little over thirty years ago the banks of this city made their exchanges but once a week, and this was on Monday morning before banking hours. Many shrewd dealers with more wit than capital availed themselves of this fact to secure funds not otherwise within their grasp. At the beginning of the week, A, B, and C had accounts in three different banks; A would obtain B's check, B would secure a like amount of C, and C, in turn, of A, and each would deposit the order in his own bank and of course draw against it. Thus, without any money, they could draw three thousand dollars and use it up to Saturday. On this day the money must be deposited, as the checks would go in for settlement on Monday morning. It was not difficult for each of them, just before the bank closed on Saturday, on their checks dated Monday, to borrow of some friend a thousand dollars, and this would keep them going indefinitely.

amounts were small, and no losses were likely to arise. After stock speculation set in with extraordinary vigor during the war, check-certifying became, in effect, a mode of guaranteeing the contracts of stock-brokers with their customers, and was practiced by a few banks to an enormous extent. In 1869 a law was enacted, prohibiting the certifying of checks drawn on any national bank in excess of the drawer's deposit therein. The fine for violating the law was the forfeiture of the charter and appointment of a receiver. After that time the practice diminished, yet did not cease.

The New-York Clearing-house considered the matter. A committee recommended that "in no case shall a check or other obligation be certified by a bank, unless the amount of it is first found regularly entered to the credit of the dealer upon the books of the institution." Though adopted with only four dissenting votes, the practice continued, and another

"This was called 'flying paper,' and, by an easy transition, 'kiting,' as it was raising money by the use of paper that had no solid support. Of course, it was adroitly disguised, the checks being for odd amounts, and the various transactions as much mixed as possible. To prevent such a misuse of credit the banks began to send out runners, either to present the checks for collection on the day they were deposited or to ask for a certification. If the check was certified, it was charged at once to the drawer, and unless he had the money in bank at the close of business his account would stand overdrawn. It was done to prevent kiting and not to facilitate it. It is true that from the hour of certification to the close of business the drawer of the check had a credit, but the paper was not a kite, as it had the stamp of the bank, which represented real capital.

"After the practice of making daily exchanges came into vogue, the system of certifying checks was extended to avoid the carrying of money through the streets, and to bring all the settlements together into the morning hour. When the clearing-house was established it became still more convenient, and no one thought of presenting a check for payment."
—*N. Y. Journal of Commerce*, Nov. 21, 1883.

law was enacted, imposing a heavy fine and imprisonment of the officer, clerk, or agent of a bank who should do such a thing. When this went into effect, the banks that were accustomed to certify large amounts of checks accepted them, assuming that an acceptance was not a violation of the law. In 1882 Congress enacted that any officer, clerk, or agent of a bank who should willfully violate the law with respect to illegal certification, or who should resort to any device or receive any fictitious obligation, direct or collateral, in order to evade its provisions, should be fined or imprisoned, or both. There was need of doing something, for the practice had been rapidly growing. A bank in New York lost a large amount by over-certifying, and the teller who transacted the business was indicted, and pleaded guilty, but showed that he had acted on the authority of his superior officer. The rigor which the comptroller displayed in dealing with the banks that violated the law finally led the most prominent offenders to abandon their charters and reorganize by the State law, which did not prohibit the practice.

While the comptroller was thus trying to make the refractory banks obey the law, the charters of many had nearly expired, as their length of life was twenty years. Serious opposition existed to their renewal. Although they could close and reorganize, this was not an easy thing to do, and involved some difficult questions. What the banks desired was authority to continue by a mode which would not produce any disturbance to themselves or the business of the country. The Committee on Banking and Currency reported favorably on a bill for extending their charters, but Congress was disinclined to consider the matter. Mr. Crapo, the chairman of the committee, sought to get a time fixed for discussion, but the

House voted against doing so, and not until the 13th of May, 1882, did the discussion begin. In the meantime the charters of two banks had expired, and by the 25th of the following February, those of three hundred and ninety-three banks would expire. On the 1st of October, 1881, two thousand one hundred and forty-eight banks were in operation, three hundred and ninety-three of which had a capital of only \$50,000, while one hundred and sixty-four others had a capital from \$50,000 to \$100,000, and eight hundred and twenty-nine a capital from \$100,000 to \$150,000. From that date to the time of opening the discussion, more than one-half of the banks organized had a capital of \$50,000 each. They were located in the South and West, and were multiplying rapidly.¹

The first provision of the bill authorized the banks to continue for another period of twenty years, provided the shareholders owning not less than two-thirds of the capital stock consented. If any stockholder did not wish to continue, the bill provided for a fair appraisal and sale of his interest for cash. The opponents of the banks maintained that the proposed legislation was unnecessary, because the banks, when their charters expired, could liquidate and reorganize. This was so, but if they had, their undivided surplus and profits, which amounted to \$184,000,000, would have been divided, and the reorganized banks would have had only their capital. It was very desirable to retain this reserve of earnings. The national banking law had wisely provided that every bank, before declaring a dividend, should "carry one-tenth part of its net profits of the preceding half year to its surplus fund until the same" should "amount to twenty per centum of its capital stock." The banks having obeyed the law, had the

¹Crapo's Report, No. 253, 47 Cong., first session.

above sum, after paying \$85,845,169 of losses between 1876 and 1879. This accumulation had rendered the banks strong. Depositors felt sure that if losses should occur to the banks they would be made good from the surplus, and thus escape loss. They were very desirous of retaining their surplus fund, and this was the chief object of the measure. Liquidation and reorganization of the banks meant, of course, a division of it, beside a calling of loans and disturbance of the money market. When the State banks went over it was seen how much better it was to permit conversion, rather than to go through a long process of settlement and reorganizing; the same arguments existed in favor of granting authority to the banks to continue, though greatly strengthened by many additional circumstances which had arisen during the last twenty years.

The chief objection to the bill was that it continued the privilege to the banks to issue circulating notes.¹ One class of opponents, led by Mr. Buckner, of Kentucky, desired that government-notes not endowed with a legal-tender power should be issued as fast as the national bank-notes were withdrawn, thus leaving the volume of currency undisturbed by the change; and another class, represented by Mr. Brumm, of Pennsylvania, wished to substitute legal-tender notes receiv-

¹ Comptroller Knox, in his Report for 1882, said, "The profit upon circulation upon the four and four-and-a-half per-cent bonds, where the rate of interest is six per cent, is not much in excess of three-fifths of one per cent, and where the rates of interest are above eight per cent, the profits are nominal, and are not sufficient to induce the banks to purchase large amounts as security for circulation. Where the profits are so small, there is a serious objection to the investment of so large an amount of capital in premium, which, in the case of four-per-cent bonds, amounts to one-fifth of the face value of the bonds."—p. 148. See fuller account of the subject, Comptroller's Report, 1879, p. 123, and Comptroller Cannon's Report, 1884, p. 134.

able for taxes and duties, but not resting on a coin foundation. Mr. Brumm favored the issue in the beginning of \$360,000,000 of such notes, but Mr. Haseltine, of Missouri, unmindful of the teachings of Benton, declared that he would not be content with a smaller issue than \$1,500,000,000, or enough to wipe out the national debt.

Mr. Buckner, who showed by far the best knowledge of the subject of any of the opponents of the bill, admitted that, if the government issued the entire credit circulation, it would become "fixed," yet he contended that a circulation based on credit and not on coin, however secured or redeemed, should have no elastic power; "that is, should not be contracted or expanded at the will of those who make a profit for themselves by loaning it or discounting notes in exchange for it. The idea of having a credit circulation that will expand or contract, according to the demands and the state of trade and commerce, is folly and fallacy combined. Issue banks are organized because they hope to realize profits by loaning their own credit and the deposits of their customers, and not to give facilities to the growth of trade and business, except as an incident to the profits to be derived from making loans on their credit and on their deposits, and the more of their notes they can keep out the larger is their income. An elastic credit currency is as great an absurdity as an elastic yard-stick. What is most needed for the permanent prosperity of all kinds of business and all classes of the community is a volume of circulation which will give steadiness to prices and regularity to the movements of trade and commerce." Mr. Buckner had most of the weight of modern experience on his side in support of his main proposition concerning the undesirability of trying to maintain an elastic currency.

When the Bank of England resumed specie payments in 1821, it could issue notes without restriction, and ample provision was made for their redemption whenever they should be presented. During the twenty-three succeeding years the solvency of the bank was never questioned, and the notes were always redeemable; yet too often it unwittingly occasioned serious derangements of the currency, and thereby caused vexations and sometimes ruin to business. Wherein did the bank err? By the testimony taken by the Bullion Committee, in 1810, it was clearly shown that all the directors of the bank believed, and so did many of the merchants who were examined, that there could not be an excess of bank-notes so long as they were issued on the discount of good bills, growing out of real commercial transactions, and running for short periods. The bank-notes, said the directors, would return if not required, because no one would pay interest for them if they did not wish to make use of them. This idea prevailed for a long time, that so long as bank issues were based on sound mercantile transactions, and were always redeemable, there was no danger of an over-issue, or a derangement of the currency attending such a course. And yet it was clearly learned, after much suffering, that bank-notes, though based on perfectly sound mercantile transactions, and always redeemable, could be issued in excess, and were thus issued, and that very disastrous consequences followed.¹ Nevertheless, neither Congress nor the country were

¹ One of the first persons to see the error in the policy of the bank was Jones Lloyd, afterward created a peer, and better known to us as Lord Overstone. More than one eminent British authority has declared that he is the ablest writer on banking and financial subjects that Great Britain has produced. We shall describe in his own words the evil consequences from not understanding the true principle which ought to have governed the

ready to substitute government non-legal-tender treasury-notes for the bank circulation.

The "enormous profits" made on their circulation was a statement constantly repeated during the debate by the opponents of the banks. Though clearly shown to be wrong, no amount of demonstration sufficed. Like Goldsmith's school-master, though vanquished, they "could argue still."

The extension was granted, and most of the banks are living in the second period of their existence; nevertheless, a transformation must take place or they will die. With the reduction of the national debt they must retire their circulation, or the government must consent to its continuance on another basis. Whether it shall be replaced with treasury-notes, or whether the government shall guarantee a circulation for a good reason and satisfactory consideration, or whether the world, in its wonderful progress in economizing the use of money, shall be able, ere long, to dispense with a promissory circulation altogether, only a daring prophet would answer.

bank in issuing its notes. "Security for the ultimate solvency of those who issue paper money is confounded with and conceived to be the same thing as security for the due regulation of the amount of that paper money—a fallacy very prevalent, and from which the most erroneous views arise. Insolvency on the part of an issuer affects the specific holders of the notes of that issuer, and those only; but improper fluctuations in the amount of paper issues affects the whole community in common; they disturb to a greater or less extent the steadiness in prices and the regular movements of trade, and they tend to derange the equilibrium of exchange with other countries. The former evil is local and partial; the latter is general, affecting the whole country and every individual in it."—*Remarks on the Management of the Circulation*, chap. 3, vi. See also Amasa Walker's article, *Our National Currency*, *International Rev.*, 1874, p. 224.

CHAPTER V.

COINAGE.

AFTER the suspension of specie payments the regulation of the coinage did not much concern Congress for nearly a dozen years. The weight and composition of the cent was changed ; two, three, and five-cent pieces were added to the list of coins ; and persons were to be heavily fined or imprisoned, or both, who should make issue or pass "any coin, card, token, or device whatsoever in metal or its compounds." Such a punitive measure had become needful in consequence of the large quantities of bogus devices that were circulated as substitutes for the one-cent pieces. They were of the same size as the legal cent, contained no nickel, averaged about fifty-one grains in weight, and were worth "not more than one-fifth of a cent." Not less than three hundred varieties of these false and illegal tokens or cents were made and issued during the war period.¹

¹ Mint Reports, 1862, 1863. In 1862 the mint at Philadelphia made "a thorough re-examination" of the abrasion of coins. "It may be stated," said the director, Mr. Pollock, in his report, "that the silver coin averages a loss of one part in 630 ; the half eagle one in 3,550 ; the double eagle one in 9,000 ; and that, by a cautious estimate as to the proportions of the various sizes of coin actually among us, the average annual loss by abrasion does not exceed one part in 2,400 ; that is, in times when specie is current at par with bank paper, and not lying idle. Let it be observed that all experiments hitherto made, in regard to abrasion, seem to have been based upon prices not higher in value than the sovereign or half eagle.

When the law of 1857 was enacted, relating to the coinage of the cent, the opinion yet prevailed that the quantity of metal contained in the piece ought to have a value approximating to the value it represented. In reducing the cent, therefore, from one hundred and sixty-eight grains to seventy-two, its composition was changed to eighty-eight parts of copper and twelve of nickel. As nickel was worth at that time about two dollars a pound, a cent contained nearly half that value of nickel. The director of the mint maintained that although the change was "well intended," the experience of other countries and our own showed this to be an unnecessary liberality, and that the money thus used for buying nickel was "so much money wasted."¹ In France a copper piece called a *sous* then circulated, weighing a little more than our cent, composed of ninety-five per cent copper, and five per cent of tin and zinc. He recommended that the law be so modified that the cent should contain ninety-five per cent of copper, and the remainder of zinc and tin in suitable proportions. Acting on this recommendation, Congress, in 1864, authorized the form, weight, and composition of the cent which has since that time been coined.

None of the copper coins were a legal tender until 1864, when they were endowed with this attribute to a small degree. The next year a notable improvement was made in providing for the redemption of the five-cent pieces when presented in

This has rendered expedient a new examination, because the great preponderance of our specie is in large pieces, which, being less exposed by circulation, must be judged by a law of their own. While one double eagle is lying quiet, five or ten smaller pieces are passing from hand to hand."

¹ Mint Report, 1863. "We have given it away under the mistaken notion that value was essential to secure the circulation of our inferior coinage."

sums not less than \$100. But why did Congress refuse to redeem all the copper coins? In London, it was said in one of the mint reports urging a wider application of the law, that such coins could be had in large quantities at a discount by going to breweries and ale-houses for them, but the people preferred new ones, and so the mint was kept active, and the country was overstocked. Long before, the copper currency of Brazil had become so enormous that servants who went to market had a heavy load to carry each way, copper in going and provisions on their return. In 1871 the law was broadened to cover all copper, bronze, copper-nickel and base metal coinage. By the same law the secretary of the treasury was authorized to discontinue or diminish from time to time the manufacture and issue of such coins.

The attempt to secure uniformity of coinage with Great Britain was begun before the war, and, notwithstanding that event, was continued. In his second annual report, Mr. Chase reminded Congress of the importance of establishing uniform weights, measures, and coins, and recommended that the half eagle of the United States be made equal to the gold sovereign of Great Britain in weight and fineness. The Berlin International Statistical Congress,¹ held the next year, recommended the reducing of the existing units of money to a small number; that each unit should be, as far as possible, decimally subdivided; that the coins in use should be expressed in weights of the metric system and of the same degree of fineness, namely, nine-tenths fine and one-tenth alloy. That body also recommended the holding of a special Congress, which should be authorized to consider and report concerning the relative weights in the metrical system, of the gold and silver coins,

¹1 Ex. Doc., No. 49, 38 Cong., first session.

and to arrange the details of the proposed system. This action led to a conference in Paris, in 1867, in which nineteen nations were represented.

The conference proposed a single standard of gold ; coins of equal weight and diameter ; of equal quality or fineness, nine-tenths fine ; the weight of the existing five-franc gold piece to be the unit ; the coins of each nation to bear the names and emblems preferred by it, and to be a legal tender, public and private, among all. The single gold standard was an American idea, and other countries, particularly France, assented to the adoption of it reluctantly.¹

The Finance Committee of the Senate strongly favored the recommendations of the conference.² One of the questions considered in their interesting report was, What provisions, if any, should be made for existing contracts in the event of adopting what the conference had recommended ? The committee maintained that private debts were made knowing that Congress had the power to regulate the value of coins, which had been repeatedly exercised, but in no case had "any provision been made for enforcing existing contracts in the old rather than the new standard." Such, too, had been the practice in other countries where the standard had been changed. Such, too, was the principle adopted when passing the legal-tender law. If made applicable only to future contracts, it "would have bankrupted a large portion of the active business men of the country, where business compelled them to contract debts."

With respect to public debts, the committee maintained that

¹ Senate Doc., No. 14, 40 Cong., second session. Supplemental Report by S. B. Ruggles, Ex. Doc., No. 266, 41 Cong., second session.

² Report, No. 117, 40 Cong., second session.

the loan-contract was the only law that ought to affect the creditor until his debt was fully discharged. Congress, as the authorized agent of the American people, was one party to the contract, and could no more vary it by subsequent Acts than any other debtor could vary his contract. "As to the public creditor, no legislative power stands between him and the exact performance of his contract. Public faith holds the scales between him and the United States, and the penalties for a breach of this faith are far more severe and disastrous to the nation than courts, constables, and sheriffs can be to the private debtor." The public debt was then so large that a reduction of three and a half per cent in the standard—which would have been necessary had Congress adopted the recommendation of the conference—would have reduced the public debt \$90,000,000. Neither Congress nor the country, nor the countries of the Old World, were fully prepared for the change.

When Congress next considered the subject of coinage, a bill to revise the mint laws was before that body. No revision had been made since 1837, and the secretary of the treasury had requested Mr. Knox, the deputy comptroller of the currency, to revise them. In the spring of 1870, he completed the task, and his report was sent to the House.¹ Among

¹ Ex. Doc., No. 307, 41 Cong., second session. The Finance Committee of the Senate stated the features of the bill in their report, and added: "The method adopted in the preparation of the bill was, first, to arrange, in as concise a form as possible, the laws now in existence upon these subjects, with such additional sections and suggestions as seemed valuable. Having accomplished this, the bill, as thus prepared, was printed upon paper with wide margin, and in this form transmitted to the different mints and assay offices to the first comptroller, the treasurer, the solicitor, the first auditor, and to such other gentlemen as are known to be intelligent upon

the amendments proposed in the bill were the establishing of a mint bureau in the treasury department, which should have charge of the operations of the mints and assay offices, and the discounting of the coinage of the silver dollar. The reason given for the latter amendment in the report accompanying the bill was, that by the legal ratio existing between the two metals, the silver dollar was worth a premium of about three and a half per cent; and, consequently, was no longer employed in making payments, while the gold dollar remained as the unit of account. Subsequently, the secretary transmitted to the House copies of the correspondence of the department with public officers and other individuals, whose opinions had been solicited in preparing the bill. The bill was reported by the Finance Committee of the Senate, discussed two days and passed, and then sent to the House. Mr. Kelley, of Pennsylvania, who was chairman of the Coinage Committee, recommended the passage of the bill. He said that it had received as careful attention as he had ever known a committee to bestow on any measure. "We proceeded, with great deliberation, to go over the bill, not only section by section, but line by line, and word by word." An exhaustive discussion followed, and Mr. Hooper, of Boston, delivered an elaborate speech, in which he thoroughly explained each section. Reaching that relating to the silver dollar, he said, "This dollar, by reason of its intrinsic value being greater metallurgical and numismatical subjects, with the request that the printed bill should be returned with such notes and suggestions as experience and education should dictate. In this way the views of more than thirty gentlemen who are conversant with the manipulation of metals, the manufacture of coinage, the execution of the present laws relative thereto, the method of keeping accounts, and of making returns to the department have been obtained."

than its nominal value, long since ceased to be a coin of circulation, and is melted by manufacturers of silverware. It does not circulate in commercial transactions with any country, and the convenience of these manufacturers, in this respect, can better be met by supplying small stamped bars of the same standard, avoiding the useless expense of coining the dollar for that purpose." Mr. Kelley also added, "It is impossible to retain the double standard. The values of gold and silver continually fluctuate. . . . Hence all experience has shown that you must have one standard coin which shall be a full legal tender, and then you may promote your domestic convenience by having a subsidiary coinage of silver which shall circulate in all parts of your country as legal tender for a limited amount." The bill passed the House by a vote of one hundred and ten to thirteen, and, after further discussion and amendments by the Senate, was referred to a committee of conference, whose report was adopted. Thus the measure received much more careful attention than most measures. Congress did not act blindly in discontinuing the coinage of the silver dollar. Congress merely put in legal form the previous action of the people.¹

¹ For a fuller account of the action of Congress on this subject, see Upton's *Money in Politics*, chap. 20. "The report of the deputy comptroller of the currency, transmitted to Congress, in 1870, by the secretary [of the treasury], three times distinctly stated, that the bill accompanying it proposed to discontinue the issue of the silver-dollar pieces. Various experts, to whom it had been submitted, approved this feature of the bill. The House was informed by its members of this provision, and the bill was printed thirteen times by order of Congress, and once by the commissioners revising the statutes, and was considered during five successive sessions. If the question of the double standard did not become prominent in the discussion upon the bill, it was for the reason that usage had established the gold dollar as the unit, the silver dollar, on account of its greater relative value, having,

In the treasury-bill a subsidiary dollar weighing three hundred and eighty-four grains, and having a limited legal-tender power, was recommended. Instead of authorizing this, Congress authorized a trade dollar, weighing four hundred and twenty grains and possessing unlimited legal tender. It was coined at the request of merchants and other Eastern people who were trading with China, and was not intended for use in this country.¹

Although Congress had discontinued the coinage of the silver dollars, the legal-tender quality of those existing was not affected. None,⁷ however, had been coined since 1809, and long before the enacting of this law they had disappeared. Their demonetization came four years later in revising the statutes of the United States. The "Revision," as the new compilation was called, superseded all pre-existing general laws to which it referred. By the revision all the silver coins of the United States were declared to be a legal tender for payments not exceeding five dollars. This, of course, included the silver dollar. As nothing can be taken away from nothing, it is difficult to perceive how this action of the revisers affected anything or anybody, inasmuch as no silver dollars were then in circulation and their coinage had been formally discontinued.

with the Mexican dollar and pistareen, disappeared from the circulation of the country. The coinage Act of 1873, and the Revised Statutes of 1874, simply registered in the form of a statute what had been really the unwritten law of the land for forty years."—Comp. Knox, *Report*, 1876, p. 54.

¹ Act, Feb. 12, 1873, 42 Cong., third session, chap. 131, sec. 15. Congress resolved, July 22, 1876, "that the trade dollar shall not hereafter be a legal tender, and the secretary of the treasury is hereby authorized to limit from time to time the coinage thereof, to such an amount as he may deem sufficient to meet the export demand for the same."—*Res.*, No. 17, sec. 2.

Amount of silver dollars in U.S. mint 1793-1852, \$2,506,890
 1853-1873, 5,538,948
 1793-1873 \$8,045,838

Hardly had the new coinage-law been enacted when silver, as compared with gold, fell rapidly in price. Within twelve months the quantity of silver contained in a silver dollar could be purchased for ninety-eight cents in gold; in 1874, for four cents less; in 1876, the price had advanced to ninety-seven and two-tenths cents, and the next year it fell to ninety cents. Such a sudden and large disturbance in the price of silver was unparalleled. As the people of this country were using for a circulating medium only United-States notes and the notes of national banks, current exchanges were not affected by the fluctuating ratio between the two metals. The government continued to receive gold at the custom-houses, and to disburse it in paying the public obligations. No one felt wronged in paying or receiving it. The decline in the value of silver affected no class except the producers and those who employed it in the arts.

In March, 1875, Mr. Reagan, a member of the House, offered an amendment to a bill relating to the issue of small silver coins, declaring that the silver coins of the United States of the denomination of one dollar, should be a legal tender in a payment at their nominal value for any amount not exceeding fifty dollars. By this amendment the legal-tender power of the trade dollars would have been increased from five dollars to fifty. A month later the Senate amended the bill and authorized the coinage of a silver dollar nine-tenths fine, and weighing four hundred and twelve and eight-tenths grains troy, and which was to be a legal tender to the amount of twenty dollars in one payment, except for duties and interest on the public debt. The profit from coining this dollar was to accrue to the treasury. Each House passed the amendment proposed therein, and did nothing more.

The production of silver in large quantity in this country began in 1862, but finding a ready market abroad, and also at home, for use in the arts, the demonetization of the silver dollar occasioned no injury to any person. When Congress determined to resume specie payments, and the value of silver declined in Europe, then the producers of silver awoke to the importance of getting the coinage-law so amended as to permit the largest use of silver. If free coinage could be adopted, and the limitation on its legal-tender power be removed, a larger quantity of silver would be coined and used as money, and the value of silver would be sustained or enhanced.

A strong agitation now arose for the remonetization of silver. The statement was put forth, and constantly repeated, that silver had been stealthily demonetized through the unceasing alertness of money-grasping creditors. In truth, they could have been as justly accused of filling up the Mississippi, or of removing the sands of the desert of Sahara. For twenty years we had had two standards, not gold and silver, but gold and paper, and in most transactions persons had bought and sold by the paper standard ; no one had ever thought of giving or receiving silver ; consequently, when Congress stopped the coinage of the silver dollar and demonetized it, a kind of dollar was erased from the statute book, whose use the people had long discarded and quite forgotten.

The silver producers were joined by a powerful ally, those who were in favor of an increase in the currency and of paying the public debt in silver. In previous chapters we have shown how fiercely the resuming of specie payments was resisted from the close of the war until their consummation, and how strong was the sentiment, at times, of discharging the

bonded obligations of the government with legal-tender notes. When specie payments were finally resumed, the value of a silver dollar was worth considerably less than a gold one, and opinion in favor of paying the bonds in silver quickly developed.¹ The silver producers, thus reinforced, were strong in number, and the contest they have waged is one of the most interesting in monetary history, and of far-reaching practical consequences to the government and to the people.

The chief argument advanced by the supporters of silver was that prices depended largely on the volume of money, and, consequently, silver should be employed, otherwise a grievous wrong would be inflicted on society. Senator Jones, of Nevada, was the champion of the movement for restoring the use of silver. Through his effort a Monetary Commission was created to investigate the subject, of which he was appointed chairman. The report of the commission is one of the most elaborate and able pleas in support of a cause ever made to Congress.² It was chiefly the work of the chairman, and George M. Weston, the able secretary of the commission. Both were complete masters of the subject.

The commission remark, "It is obvious that a violent contraction in the volume of money would have been disastrous to all classes of creditors, including nations. This would be its first effect, its more immediate result. . . . Price is the expression in money terms of the relation which the unit of money bears to a specified quantity, or the unit of each and every other thing in exchange. Under a credit system where contracts, aggregating a vast amount, to pay money at future periods have been made, steadiness in prices becomes the all-important consideration, and that steadiness depends on the

¹ Senate Report, No. 703, 44 Cong., second session, p. 93.

² Ibid.

steadiness in the quantitative relation between money and all other things. The performance of contracts to deliver commodities or render services is not made either less or more difficult by an increase or decrease in the volume of money. But nearly all contracts in the commercial world are for the future delivery of money, and the consideration received and the promise made in such contracts are based on existing prices. The command, therefore, which commodities and services may have over money in the future, and which will find its expression in price, becomes a matter of vital importance.

“Under firmly-established systems the value of each unit of either metallic or *fiat* money depends absolutely upon the number of such units and the relation they bear to the services they are required to perform. The purchasing power of the world’s entire stock of metallic money would neither be increased nor diminished by an increase or diminution of its magnitude, if other things should at the same time remain unchanged. The value of that stock can only be changed by an increase or diminution of the things which it is the function of money to measure. If the volume of either metallic money or accepted *fiat* money should be doubled, at however great or little cost, other things remaining the same, the aggregate value of neither would be changed, but the value of each unit would be diminished one-half. . . . It is the magnitude of that stock relative to the amount of services it is required to perform, that controls the value of each unit of either metallic or *fiat* money.”

The commission then advance a step, and consider the influence of “banking expedients”—checks, bills of exchange, and clearing-houses on prices. They maintained that when

the volume of money was diminished, these expedients must diminish, and prices must fall in a corresponding ratio. Money was the primary and governing force whose functions could not be superseded by any device whatever, and whose volume or existence did not depend on banking expedients, while these expedients grew out of money and could not exist without it. The farthest extent to which they could be used was already practically reached, and they could only increase, and must decrease, as the volume of money increased or diminished.¹ This reasoning partly applied to the effect of credit on prices.

That the use of banking expedients can be extended no further is a questionable statement, and so is the next, that they must decrease with the diminution in the volume of money. In Great Britain the paper circulation has been slowly diminishing since 1844, yet the banking expedients have increased enormously—many times beyond the metallic additions to the circulating medium. These expedients will increase with the multiplying of banks and the growth of the habit of making deposits and using checks. If another dollar should never be added to the existing supply, the medium that may be employed in making loans and in paying debts may be enormously increased in the ways above mentioned.

From the beginning to the end of their argument the commission sought to show not simply that prices were principally determined by the volume of money, but by the volume of metallic money. We have made the only reference to paper money contained in this elaborate report. The idea is ever

¹ Concerning the proportion of checks and drafts used in payments to gold and silver coin and paper currency, see Comp. Knox's valuable Report for 1881.

kept before us that the volume of metallic money determines prices, while the influence of bank and government money, and bills of exchange, bank checks and credit is carefully left almost out of sight. If it were true that prices mainly rest on a metallic foundation, then their argument would have been conclusive, for the silver portion of that foundation in some countries is so large that it cannot be removed without sinking prices, any more than the land above a mine can retain its level if the mineral and supports beneath are taken away. When Hamilton wrote in his mint report that "to annul the use of either of the metals as money is to abridge the quantity of circulating medium, and is liable to all the objections which arise from a comparison of the benefits or a full, with the evils of a scanty, circulation," this state of things existed. The first United-States bank had not been created; only three State banks existed, and the quantity of notes issued by them was very small. The money then in circulation consisted chiefly of gold and silver. To demonetize either metal at that time would have inevitably caused a sinking of prices and great distress. Such a step would have been criminally unwise. For forty years this was the general opinion. Said Senator Sanford, in his report, in 1830, "Our system of money established in the year 1792 fully adopts the principle that it is expedient to coin and use both metals as money, and such has always been the opinion of the people of the United States." The circulation of the country for a long period was chiefly foreign coin, and this is why it was made a legal tender and was so conspicuous in our monetary system.¹ The ques-

¹ Its regulation was an important matter with Congress until 1810, and formed the subject of several investigations and lengthy discussions, an account of which is given in the preceding vol., p. 169.

tion of establishing a correct ratio between gold and silver engaged the attention of men, inside and outside Congress, from the beginning, and for many years was the chief topic of discussion pertaining to the coinage.

At the time of making the Sanford report, however, some persons saw that metallic money was not the only money that influenced prices. Bank-notes had come into general use, and readily circulated. The notes of the second United-States bank, especially, were in high repute, and were everywhere received for their face value. These notes had the same effect on prices as the gold and silver they represented. Secretary Ingham, in his report on the relative value of gold and silver, had learned this. So had John White, cashier of the Bank of the United States, at Baltimore, who had well studied the matter. They clearly saw that the outflow of gold was caused not so much by its wrong legal ratio to silver as by its greater value for exportation purposes than the paper then in circulation. Silver went as well as gold. Foreigners did not want our bank-notes, but would readily take our coin. It was another illustration of the familiar fact that paper money has no wings. As the bank-notes remained at par, their circulation was not checked, and prices were not affected by the outflow of the precious metals, for the volume of money remained the same or increased.

At a later period, when the California and Australian gold mines were discovered, Chevalier, and others in Europe, favored the demonetization of gold, in order to "redress the situation." In other words, they favored this change in the interest of creditors, but in Europe the proportion of metallic money to the whole amount then existing, was far greater than the proportion in this country ; consequently, a demonetization

of either gold or silver there would have caused a fearful contraction with very costly results. In this country the question was not considered, yet, if the change had been made, the results would not have been very serious, because bank-notes formed so large a portion of the circulating medium. If the effect of demonetizing one or the other at that time had been to weaken the superstructure of paper money, then, indeed, would the consequences have been terrific to all classes. Demonetization in Europe meant the deliberate destruction of a portion of the metallic money in order that the value of the remainder might be preserved or enhanced. Such a change at no time has ever engaged the attention of a considerable number of persons in our country with respect to the metallic circulation.

The effect of paper money in influencing prices, and consequently in diminishing the importance of both gold and silver for monetary purposes, was clearly seen by Senator Hunter, of Virginia, in his report¹ on a change in the coinage in 1852. "If all the pecuniary transactions of society had been settled in currency, and there had been no currency but specie, there is reason to believe that the present state of things would give unmistakable evidences of the effects of a contraction of the currency upon our enterprise and industry. But, since the general use of bills of exchange, currency has not constituted the only means of settling pecuniary transactions; and in the middle of the seventeenth century, when banks began to be felt in commercial affairs, specie has not constituted the currency of the world; but this last has been so largely composed of paper that we cannot omit its consideration in any question connected with our standard of value. Perhaps no discovery in the

¹ No. 104, 32 Cong., first session.

whole machinery of commerce has been more important to the world than that of the bill of exchange, none which saved so much labor in its processes, none which was so efficient in keeping up some approximation between the real and the money standards of the world." . . . But this, he continued, was not "the only mode in which paper has diminished the demand for the precious metals." Bank-notes had been issued, based not on the principle of having them rest on a deposit of coin for their full amount, but on the capacity of the issuers to redeem them when presented. They not only swelled the volume of money, but released the use of gold and silver for money purposes, and so caused the freer use of it in the arts. The size of the price-measure, therefore, was not diminished by this process of adding paper money and withdrawing specie.

During the war, specie payments were suspended, and the paper standard deteriorated. But, as we have shown elsewhere, the higher prices were not merely the registration marks of depreciation. They were caused partly by the enormously increased demand for things. While the suspension lasted, a large portion of our specie went abroad because there was no use for it here. As the time drew near for resuming, it returned in payment for bonds issued in order to get it, and for products. No silver accompanied the yellow metal. When, therefore, Congress demonetized it, the event had not the remotest effect on prices, for no silver was in circulation, or formed a basis for the paper money then in use.¹

¹"It may be confidently stated that, from 1834 to 1873, no silver dollar pieces have been presented at any custom-house in payment of duties. The entire customs of the country during this period were, with the exception of silver used in change, paid in gold coin, and from this fund the interest paid upon the public debt has been chiefly derived. It is not probable that in the last forty years one of these silver dollar pieces has been

If silver had not become an important product, the value of which it was desirable to sustain, it is probable that the "dollar of the fathers" would have henceforth quietly rested with the fathers themselves.

Although the demonetization of money that we did not possess could have had no influence on prices, the action of Congress did have a prospective effect. Our country had become a large producer of silver, and if the coinage-law had not been changed, all the silver might have been coined, its value better sustained, the volume of currency increased, prices advanced, and debt-paying, except in cases requiring gold, rendered more easy. These effects of continuing the unlimited coinage of silver were so clearly seen that the sudden growth of a party in favor of returning to the bimetallic system surprised no one familiar with the currency agitation for the fifteen years, or more, preceding.

A bill was introduced into the House, in 1876, providing for the free coinage of silver. The speeches for which that formed a text were voluminous. On no financial subject in the last twenty-five years did so many small fishes talk like whales. Many speakers denounced the public creditor in severe and unreasoning terms. The bill was amended, limiting the maximum amount of coinage to \$4,000,000 a month, and establishing a minimum of half that amount. Although

used in this country in the payment of debt, except in certain cases of special contract, while thousands of millions in gold coin have been used to liquidate debts, both public and private. The average amount in silver dollar pieces annually coined during these forty years has been about \$160,000. The coin did not pass into circulation, but was chiefly used as a convenient portion of silver in the laboratory of the metallurgist, or was hoarded as an object of curiosity."—Comp. KNOX's *Report*, 1876, p. 53.

President Hayes vetoed the bill, it was passed over his veto by both houses.¹ No silver could be coined on private account; silver producers obtained a new outlet for their silver to the extent of the treasury purchases, while the government gained the profit between the market price paid for the silver and the legal price. One provision of the bill related to international action for the restoration of the use of silver. During the debate the question of paying the bonds in silver instead of gold was discussed. That members of Congress in their discussion about the payment of the debt in coin had both gold and silver in mind is shown by the record. Their views, however, have no bearing on any side of the question. It is one of intention between the parties to the contract, and these were the United States and the purchasers of bonds. What did the government intend to pay and the purchasers expect to receive? Unquestionably gold, because it was the cheaper metal. The advocates of silver maintained that the intention was to make payment in the cheaper metal, whichever it might be. This was not the fact. The government intended to pay, the bondholders expected to receive, gold, and the reason for the intention and expectation was because gold was the cheaper metal. And it had been for so long a period, that neither party thought of paying or receiving the other. The government had paid bonds that matured in 1863 in gold, beside many others, long before and since that time. Interpreting the contract by the familiar legal rule of intention, the government was bound to pay in gold. Surely this was good policy, for a government ought always to deal liberally with its creditors in such matters in order to sustain to the highest degree of efficiency its money-borrowing power.

¹ Act, Feb. 28, 1878, 45 Cong., second session, chap. 20.

The effects of the legislation of 1876 may be briefly considered. The effect on prices of increasing the quantity of money can never be easily registered, and the effect of the silver additions since 1876 are difficult to ascertain, because the quantity of money was so large before, and because prices are perpetually moving up and down, like the tides of the sea, by many forces. It may be questioned whether prices have been appreciably effected by the recent coinage of silver. The silver commission remarked that the magnitude of the stocks of silver and gold in the world was an element of steadiness in their value, which had been often overlooked. Their steadiness of value arising from this cause, it was maintained, would, "of course, become still greater as stocks are hereafter enlarged." Admitting this deduction to be correct, the quantity of money acting as a measure of prices for a long time has been so large that it is hardly probable the recent silver increase has affected them.

Lastly, what has been the effect of the silver additions by authority of the law of 1876 on the aggregate value of the monetary supply? This inquiry may be prefaced by repeating a remark of the silver commission that, if "the volume of either metallic money or accepted *fiat* money should be doubled, at however great or little cost, other things remaining the same, the aggregate value of neither would be changed, but the value of each unit would be diminished one half." This remark approximates as closely to the truth, probably, as most economic generalizations, and if it be thus accepted, the deduction follows that the injection of silver into the body of the currency has increased the quantity without enhancing its value. If, however, prices are no higher than they would have been without this increase it follows that the larger quan-

tity in circulation possesses more value, could be exchanged for more commodities, than the smaller quantity previously existing. The new silver supply has added to the world's wealth, but not to the aggregate value of it, so far as this supply has raised prices. Has, therefore, all the labor spent in bringing silver from its dark hiding places to the light, and in transporting and coining it, gone for naught? Employment has been given to many persons with all the accompaniments of production; the exchange of the silver has effected a wider and perhaps more equal distribution of values; while the wealth of the world has in consequence been expanded.

It will not be questioned, however, that beside the silver producer, the private debtor has gained by the change, if prices have been inflated by the new additions to the currency. His condition, though, did not justify the action of Congress. If one believed some of the speeches delivered on the Bland bill, he would conclude that the fate of debtors was unceasingly hard, and that the remorseless creditor always triumphed. History teaches another lesson. In the Jewish theocracy the creditor's claim was released after seven years, and in intervals of similar length the land was allotted anew to the people. Kings of almost all ages have debased their coinage at irregular intervals, and if they did this primarily to aid themselves, private debtors were far more benefited. Statutes of limitation and bankrupt laws exist among all civilized nations as means of redressing injuries, squaring accounts, and giving the unfortunate another chance in the race. The world looks on these measures with approval, otherwise they would not stand; remembering their universal prevalence, how imperfect is the vision that discerns favorable legislation only for the strong and the rich! If the mental

strabismus of such persons shall ever be corrected, they will experience a joyful surprise of the first magnitude. There was no need, therefore, of enacting the silver law to aid the debtor. The circulation of the currency was expanding quite enough by additions of gold and bank-notes, and by the more general use of those instruments of exchange, which have so marvelously economized the use of all kinds of money.

With respect to the payment of public debts, there was no need of increasing the currency to pay them, for the reason that they are not paid, or very slowly. The public debts of the Old World, save here and there an exception, are not paid at all ; no more money, consequently, is needed for that purpose. On the other hand, the world's public indebtedness has been increasing in a fearful manner for a long period, and is not likely to stop with many nations until their creditor-power is exhausted ; so long as this movement continues, the millions who are to receive the money thus borrowed, are to lose rather than gain by diluting the currency. The lender, not the borrower ; the bondholder, not the government contractor and workman, will continue to gain most by expanding the currency until the balance in the world's debt-account appears on the other side of the ledger, and debts are paid faster than they are made. Of such a change only two or three of the many nations give the faintest sign. Admitting, therefore, that an enlarged demand for money enhances its value, unless the quantity be increased or its movement be accelerated, as European nations do not use much in paying debts, the people need not be concerned in that regard, whether the quantity be great or small. The short history of increasing the volume of money among nations is, borrowing more easily, they have contracted more than \$25,000,000,000 of debts, and are yet

borrowing. The prophetic genius of Burke is not required to predict with confidence what the end of this Himalaya of debt will be. In this country debt-paying has proceeded more rapidly, but the amount paid from month to month has been so small, and been retained in the treasury so briefly, that it would be very difficult to show wherein any interest has suffered from this policy.¹ With respect to States and cities, while they make large demands on the people in the way of taxes, the money is immediately put in banks and passes into circulation, so that no derangement whatever can be ascribed to the use of money for State or municipal purposes. Is not this argument, then, for increasing the volume of money, because the uses for it are multiplying and enlarging, without much foundation? and are not the suffering and injury prophesied if a different policy should prevail, grounded in fear or unwillingness to deal justly by those who have trusted individuals and nations?

Many unquestionably have been injured by accepting wrong theories of money as true, particularly that inflation is synonymous with prosperity and contraction with hard times. We are now overshadowed with depression; men are losing wealth; the best enterprises languish and fail, yet the volume of money is increasing. The same thing happened after the panic in 1873. During the succeeding six years of depression, additions to the currency were frequent, yet the good times so anxiously desired did not come. The wants of business did not require the restoration of the monetary function to silver; and the spring-time of prosperity would have returned as quickly if that ancient and honorable metal had been put into the hands of cunning workmen to be manufactured into

¹ See Mr. McCulloch's remark, p. 340.

myriad forms to gratify the tastes of man as by putting it into the baser melting-pot of the mint. When the people cease to live in the air in balloons, and become content to walk on the firm earth of reality, and sincerely believe that true prosperity does not spring from the mysterious manipulation of stock, and other exchanges, that excessive gains by the few are usually acquired by a corresponding loss to a larger number, and relinquish their faith in the money quackeries by which they have been so badly duped, their commercial, industrial, and moral character will be as completely revolutionized as the permanent prosperity of the country will be assured.

The action of Congress in 1876 concerning the coinage of silver was not satisfactory to many. A large class, especially the producers of silver and those who favor an expansion of the currency, desired to throw the gates of the mint wide open, and professed that no other policy would satisfy them. On the other hand, the advocates of a gold standard, and those opposed to increasing the currency, did not cease to agitate for the repeal of the new law. They declared that the country had money enough, that a gold standard ought to be maintained in any event, and that the injection of silver into the currency at the valuation established by Congress would have the effect ultimately of transferring the monetary standard to the white metal. It was generally admitted that the value of gold and silver, like other commodities, depends largely on their use, and that if a sufficiently wide market or employment for silver could be found, its value would be enhanced. Accordingly, attempts were made, through international conferences, to establish a ratio between the two metals and enlarge the use of silver. A conference was held in Paris in

1878 which was attended by the delegates of twelve nations. Those for the United States submitted two propositions: 1. "It is the opinion of this assembly that it is not to be desired that silver should be excluded from free coinage in Europe and the United States of America. On the contrary, the assembly believe that it is desirable that the unrestricted coinage of silver and its use as money of unlimited legal tender should be retained where they exist, and, as far as practicable, restored where they have ceased to exist. 2. The use of both gold and silver as unlimited legal-tender money may be safely adopted: first, by equalizing them at a relation to be fixed by international agreement; and, secondly, by granting to each metal, at the relation fixed, equal terms of coinage, making no discrimination between them." The conference discussed these propositions and adopted an answer.¹ At the time of doing this, however, the Dutch delegates were not present, the Italian delegates refused to be parties to it, and the approval of the other delegates was given with reservations. In 1881 another conference was held in Paris. Fifteen nations were represented, beside Great Britain, British India, and Canada. Thirteen sessions were held, and nothing was accomplished except to weaken the hope of extending the monetary use of silver through international action.

¹ The answer was: "1. That it is necessary to maintain in the world the monetary functions of silver, as well as those of gold, but that the selection for use of one or the other of the two metals, or of both simultaneously, should be governed by the special position of each State, or group of States. 3. That the differences of opinion which have appeared, and the fact that even some of the States which have the double standard find it impossible to enter into a mutual engagement with regard to the free coinage of silver, exclude the discussion of the adoption of a common ratio between the two metals."—*International Monetary Conf.*, 1879, p. 151.

CHAPTER VI.

INTERNAL REVENUE.

INTERNAL taxation began to yield heavily just as the war was drawing to a welcome close. For the fiscal year 1866, \$310,906,984 were collected, a larger amount than was ever drawn by a nation from internal sources in twelve months. Yet this enormous sum was paid by a generation that knew no more about internal taxation than about tithes or ship money. Though newly laid and heavy, the burden was borne for the most part uncomplainingly. Said Commissioner Pratt, in his annual report, "We may search in vain in our own history, or that of other nations, for such an example of patience and patriotism as was exhibited by the people of this country in the payment of these extraordinary burdens." They were prosperous, and therefore willing to pay. The nations of the Old World regarded us with wonder and affected sorrow. They concluded from the elaborate net of taxation which had been set to catch everything, and from the quantity gathered, that the people were fearfully depleted. England mourned oftener and more loudly than France, and with less hope of our surviving the calamities that had befallen us. Both countries were then enduring a heavier load of taxation than the United States, considering our resources and prosperity; but, like the old horse in the Eastern fable, heavily

laden with pots, pans, stools and the like, that pitied a young spirited charger whose sole burden was a young lad, France and England had borne their burdens so long as to become stunned or deadened to their weight.

Crudely laid as were the internal revenue taxes, they crippled no considerable industry. They injuriously affected some minor industries, particularly those in which alcohol was used to a considerable degree in production. As a heavy tax was imposed on this article, it increased the cost of all things of which it formed an important element. One of the most noteworthy of these products was burning-fluid. Once extensively used, the advance in the price of alcohol from forty cents to four dollars, and even more, per gallon, and the cessation of the supply of turpentine from North Carolina, put a speedy end to this manufacture. The lack of a supply of turpentine, however, was quite as serious to the successful continuing of the business as the advance in the price of alcohol. Just at this time petroleum was discovered, and even if the most favorable conditions had existed for manufacturing burning fluid, it could not have held the ground against the far cheaper illuminating agent Nature had prepared for us. The cheapness of alcohol had led to its extensive use for fuel in manufacturing and in domestic culinary operations, for bathing and cleaning, for the manufacture of varnishes, vinegar, imitation wines, flavoring extracts, perfumery, patent medicines, white lead, percussion caps, hats, photographs, tobacco, washes, dyes, and other preparations for the hair, and many other purposes. The great advance in the price of the article affected all these products in many ways. The popular hair preparations vanished from the market, and the manufacturers of patent medicines abandoned their old preparations and in-

vented new ones. A manufacturer of horse medicines who used fifty thousand gallons of spirits in 1863, testified two years afterward before the revenue commission that his business had been destroyed. Varnish makers and hat manufacturers found substitutes for alcohol. Vinegar manufactured from whiskey, which had been produced cheaply, and was of excellent quality, was supplanted by cider vinegar. Physicians and others throughout the country abandoned in greater or lesser degree the use of alcoholic extracts, and resorted to crude drugs, decoctions, and syrups as substitutes, while an attempt was made to keep down the price to the consumer of many officinal preparations which absolutely required the use of alcohol by putting them up at less than their proper officinal strength, thus inflicting a sanitary injury. In all branches of the industrial arts wherein the use of alcohol spirits was indispensable, and no cheaper substitute could be found, the utmost economy in using it was everywhere practiced. Of course, such a radical change in the use of alcohol diminished the quantity needed, affecting the distiller, the grain producer, and many other interests.¹

If internal taxes were harmful to some industries, they were helpful to others, and enormous fortunes were made from their imposition.² Persons believing that they would be levied or raised, and sagacious enough to perceive that prices would rise far beyond the amount of the tax, bought in advance, stored their goods and waited for the decree to go

¹ Reports of United States Rev. Commission, 1865-66, Special Report, No. 5, p. 10.

² Ibid., p. 27. How the taxes affected the quantity of liquor drank, and tobacco used, see Ibid., pp. 16-19, and D. A. Wells's article in Princeton Rev.

forth. More than one thrifty member of Congress profited by discounting the action of the government. In no case did Congress give a retro-active operation to the law, and by not doing so legislated for the benefit of the distiller and the speculator, rather than for the treasury and the people. With these facts lying before us, there was not so much "patience and patriotism" in paying taxes as Commissioner Pratt imagined. Who would not be willing, nay, eager, to pay taxes, when he was sure to receive them back, two, three, or four-fold? The profits realized by the holders of stocks of liquors by an advance in the tax on their property was estimated by competent authority at \$50,000,000. In July, 1864, the tax was advanced from sixty cents to two dollars per gallon. A stock of high wines and whiskies had been produced in anticipation of it, sufficient to meet the demands for a year or longer, and on this large quantity a premium was realized in consequence of the higher tax from ninety cents to one dollar and forty cents per gallon. The imposition of the tax and its subsequent advance, in many cases, had a similar effect. The fortunes made primarily from internal taxation were not confined to whiskey distillers and speculators. Importers reaped enormous fortunes.

Who lost? The government. Millions of revenue were lost at a time when most wanted by fixing a time so far ahead for the law to take effect. This was needful, in some cases, but in most of them the tax could have been laid on existing stocks without unjustly burdening the owner. Had this been done, taxation would have been less popular, yet the government could well have bartered the popularity of the system for a more plentiful supply of revenue. Moreover, we should remember that, expecting an advance and higher prices, persons

everywhere sought to obtain needful supplies at existing rates, and for a long time to come. This is the reason why, after levying taxes for a considerable period, so small returns were received. Willing as the people were to be taxed, they were prudent enough to escape paying them as long as possible by heavy purchases in advance. Their practice did not square with their professions in this regard, and their conduct was serious to the government, for the revenues were so much lighter than was expected that its credit suffered, and it became necessary to open new veins of taxation to increase the output. Had the people promptly paid their taxes under the law of June, 1863, and not evaded the burden by unusual purchases, nor used the law as a means of accumulating personal fortunes at the public expense, we should never have enacted the laws of June, 1864, and of March, 1865. The sagacity and economy exercised by the people in the beginning proved delusive, and had they thought of the real situation they would have seen the futility of their course. For, as a revenue must be had, what they did not pay in the beginning they paid afterward, and with heavy interest. If Congress committed many blunders during this troubled time, the people committed one of the costliest in seeking to evade the just and necessary operation of the tax laws, thereby giving rise to fresh exercises of legislative power, from which, in due time, sprang the rankest and most disgraceful crop of frauds known in our history.

So long as prices were rising, not many complaints were heard from the operation of the system. The law was matured with the best wisdom the nation possessed, but internal taxation had not existed for nearly fifty years, the country was enormous in extent, and presented far more difficult problems

than would have existed in a smaller one. Who could predict how the taxes would affect the taxpayer? In many cases they were thrown forward on other persons, though not always. For example, those who paid licenses probably added no more for their services or wares in consequence. The sum was too small to form the subject of such a calculation. Numerous taxes were added to the price of products, and trickling down stopped, some with one class of buyers, some with another, and many with the consumer. The following illustration is worth giving. Formerly umbrella and parasol makers made nearly all the parts of an umbrella, but at that time the business consisted rather in assembling the various parts which were made by different persons or concerns. If the sticks were wood, they were made in Philadelphia and Connecticut, partly of native and partly of foreign wood, and on the latter a duty was paid. If the supporting rod was iron or steel, it was made elsewhere. In like manner the handles of carved wood, bone, or ivory, the brass runners, the tips, the elastic bands, the rubber of which the band is composed, the silk tassel, the buttons, and the cover of silk, gingham, or alpaca, were distinct products of manufacture, each was of domestic origin, and paid a tax when sold of six-per cent *ad valorem*, or its equivalent. The umbrella manufacturer put the parts together, and paid six per cent on the product. All the parts, therefore, were taxed at least twice, and those imported, three times, thus adding from twelve to fifteen per cent to the cost of the umbrella, while each separate manufacturer added from one to three per cent to the cost price, in consequence of paying the six-per-cent tax demanded by the government of him. In the beginning, in many instances, the tax was paid by the purchaser as a distinct bill.

The duties on imported goods, as previously stated, were advanced enough to equalize the internal taxes, but the adjustment was not always accurate, and could not easily be. In the case of umbrellas, for example, there was such a duplication of the taxes paid by the manufacturer that the increased duty on the foreign product was not equal to the internal tax, and at one time he was "threatened with utter destruction." On the whole, manufacturers and others survived the inequalities, glaring as they were, and made money while prices were rising. Moreover, they finally awakened to the fact that a revenue must be had, and, if making money, they must pay.

When prices reached the highest point, and began to turn, then discontent over the existing tax system broke forth. As soon as the war closed, the government instantly ceased to be a demander of goods; the country, on the other hand, had become equipped for meeting the public, beside the ordinary demand. All knew that production must be lessened, and that prices were destined to fall. The crucial time had come. While prices were advancing, the tax burden could be borne generally without much difficulty; with receding prices, tax-paying was a far more serious matter. The first saving which the people thought of making, if possible, in order to strengthen themselves against disaster, was smaller taxes. Accordingly, a movement of that kind was begun. At every session, bills were introduced for repealing taxes, and large reductions were made during the next five years. Three reasons favored the reduction. First, because a smaller revenue was sufficient; secondly, to relieve the tax-payer; and thirdly, to remove inequalities. Congress might have acted more wisely in removing inequalities by readjusting the taxes in many cases,

instead of wholly repealing them. Complaints constantly went to Washington, and Congress thought the easiest way to grant relief was to repeal the tax; and, doubtless, it was, though by so doing, new injuries were sustained by others. Congress ought to have investigated more carefully the effect of repealing taxes before acting. Like electricity which moves along the line of least resistance, Congress pursued the shortest and least laborious method. Rarely have the members of that body gone to the bottom of questions; content to apply a temporary remedy, and leave future ills to be treated by others. The people who first succeeded in getting taxes removed were the happiest, but when reduction had gone on three years, a competent authority remarked that the three hundred and more millions paid in 1865 were paid with less complaint and disturbance than one-half that amount in 1868.¹ The palpable error was in making exemptions instead of diminishing rates.

The most unpopular of the taxes was the income tax. First imposed by Mr. Pitt in 1791, as a war tax, the taxpayer believing, like Wilberforce, that war and an income tax were wedded together, began to agitate for its repeal as soon almost as the firing of the last war-gun. The chief grounds of objection to it were, the unfairness of pressure on different classes of income, the inquisitorial nature and arbitrary power granted to the executive department of the government in collecting it, and its demoralizing tendency. The inquisitorial nature of the tax, which was, perhaps, the crowning objection, applied to it no more than to the city, town, county, and State taxes that had been paid from the origin of local government. The income tax introduced no

¹ 7 In. Rev. Record, p. 89.

novelty in taxation. Did the people object to the property taxes assessed by the States and cities? They were not taxed on what they did not have; nor on what they could not pay. The tax was laid on ability sufficient to sustain the burden. Some objected because others deceived the government officials and escaped without paying a due share, and the opposition to paying was perhaps more deeply grounded in this objection than in any other. It was contended that the system of espionage which was associated with the collection of the tax was not only oppressive, but sometimes injurious to individuals. In reply to this, Commissioner Delano remarked, "that he did not see why this objection might not with equal force be urged against all taxes upon personal property. Such taxes can not be collected without ascertaining the amount of taxable property possessed by the tax-payer. The law imposing a tax upon incomes, does nothing more than this, if so much. It simply requires a truthful and honest statement of the actual income of the tax-payer during the preceding year, which can be complied with as easily and with as little exposure of private affairs as any other law, national, State, or municipal, which is to raise revenue from the personal estate of tax-payers."

However unpopular the tax might be with the tax-payer, Congress correctly reflected public opinion in their action. That opinion was lucidly expressed by Senator Sherman: "A few years of further experience will convince the body of our people that a system of national taxes which rests the whole burden of taxation on consumption and not one cent on property or income, is intrinsically unjust. While the expenses of the national government are largely caused by the protection of property, it is but right to require property to con-

tribute to their payment. It will not do to say that such a person consumes in proportion to his means. This is not true. Every one must see that the consumption of the rich does not bear the same relation to the consumption of the poor as the income of the one does to the wages of the other. As wealth accumulates, this injustice in the fundamental basis of our system will be felt and forced on the attention of Congress.”¹

Why, if a national income tax were so unpopular, it may be worth while to inquire, is a State property tax so well endured? Because the State is less efficient in collecting it, and those who should pay the largest taxes, and who, if doing so, would complain the most loudly, to a very large extent evade them. While much injustice was perpetrated under the national system by unlawful evasion, thereby increasing the burden of those who honestly paid, yet assessments were much more general and complete than they have ever been among the States. By far the greater number of income receivers paid, if not on the whole amount of their income, on a considerable portion of it. Those who escaped wholly, or in part, were the exceptions. It is quite near the truth to say that those who complained of the law most were the same persons who tried in every way to evade its just operation. It was the only tax which they could not throw on others, and, notwithstanding the strong opposition to it, and the obvious defects in the working of the law, no war tax commanded a heartier general support, nor was in truth more justly laid. Not every one, however, paid the tax reluctantly. The list of incomes was generally published, and many a man was delighted to let the world know in this way, not of his own seeking, the

¹ Speeches, p. 348; see, also, his speech in the Senate, Jan. 25, 1871.

size of his annual income. It is true he was often animated by other motives beside patriotism. He expected to gain substantial advantages by his course. Nor was he usually disappointed. His credit was strengthened, and he and his family were pegged up considerably higher on the social register. Had the same spirit animated all income receivers, the history of the national income tax would have been very different. When the golden harvest was over, and men began to lose what they had made, then this annual revelation of prosperity was less agreeable. More than one man paid a tax on a fictitious income in order to sustain his credit. Money-making, like the wave movement of the sea, is endlessly varying. The larger portion of the war fortunes quickly melted away. As personal incomes grew less, men tried to hide the fact from the world. The payment of the income tax prevented them from shutting the door to effective secrecy.

One ground of objection to the tax was its unconstitutionality. It was maintained that the tax was direct, which required levying in a mode wholly different from that adopted by Congress in imposing this. The subject was much discussed, and the State courts pronounced contradictory opinions. No case involving the question reached the supreme federal tribunal.

All the internal taxes, except those on income and licenses, affected prices, though in varying degree. Their effect was soon perceived. It was formerly maintained that the best kind of a tax was one whose weight would be the most quickly and keenly felt, because the tax-payer would look sharply after the expenditure in order to make his burden as light as possible. This was plausible reasoning; its truth, however, has been contradicted by history. The local governments have

been far more wasteful than the national government in expending money, yet have obtained it by direct methods. The payment of high war taxes did not lead the people to look after expenditures more closely than in other times, and they sought relief, not by the better method of economizing the national expenditure, but by repealing the taxes altogether. They did not stop to reason about their necessity, or if they did, were determined to put the burden as far as possible on others. Commissioner Pratt remarked, in his report in 1875, "The imposition of an unaccustomed tax upon any article entering largely into the consumption of the people has always encountered opposition. The reason is plain, as its effects are immediately seen in the increased price of the article, whatever it is." The income tax-payers were therefore not alone in their demands; they formed only one section of a large army which began the siege against Congress, and will probably continue it so long as a tax of any kind remains.

The first tax to be repealed, was that imposed by the law of March, 1865, adding twenty per cent to the tax paid by manufacturers.¹ By the repealing Act of 1866, \$65,000,000 of revenue were abandoned, and \$40,000,000 more by the Act of the next year. In 1868, the tax on raw cotton was repealed. When first levied, the tax was two per cent, which was advanced to three. The increase occurred in 1866, and was the only war tax increased after the struggle ended. The Internal Revenue Commission recommended an increase of the tax to five per cent, but the opposition to this from some quarters was very strong.² It was contended that the tax was

¹ For dates of Acts repealing internal revenue taxes, see Appendix C.

² See memorial of New York Chamber of Commerce, Senate Mis. Doc., No. 109, 39 Cong., first session.

"practically an export duty," and was equivalent to charging the cotton grower that amount over the cultivators of cotton in India, Egypt, and Brazil. The bill was based on the assumption that by collecting \$34,000,000 from this source, income taxes could be reduced, and also those on crude and refined petroleum. A drawback allowance on cotton goods of five cents a pound was to be allowed, which would increase "the bounty on their production from two to five cents a pound." The object of this bill was to equalize the taxes, and it was contended that the tax could be successfully borne without endangering the sale of American cotton, because the facilities for raising it were so much better than those of other countries. The repeal of the tax on cotton¹ was followed, a month afterward, by the remainder of the tax on manufactures.² The revenue was reduced \$170,000,000 by the repeal of these taxes. The movement for the repeal of the latter tax began in Detroit in 1867, and was not favored by the manufacturers of New England. "The first men in three of our great industries declined to give the movement the sanction of their names. Three months afterward the largest convention of manufacturers ever held in New England met in Worcester, and to a man demanded the repeal so effectively that Congress at once responded."³ The gas tax was con-

¹ Those who paid the cotton tax tried to get it refunded, claiming that it was a direct tax. Mr. Pierce, of Mississippi, made an able speech in the House on the subject. He maintained, 1. That it was a tax or duty on articles exported from the several States producing cotton. 2. If it were a duty, import or excise, it was not uniform. 3. If it were a direct tax, it was not apportioned among the several States according to their respective numbers. Cong. Globe, 42 Cong., second session, Appendix, p. 411.

² 7 In. Rev. Record, pp. 82, 89.

³ March 31, 1868. 13 Bulletin of Wool Association, p. 271.

tinued. Two years afterward, Congress reduced the duties on imports, extended the free list, repealed the tax on gross receipts and on sales, except the sale of stamps for tobacco, spirits, and wines, also the taxes on successions, passports, and special taxes, except those relating to spirits, tobacco, and fermented liquors. The number of articles subjected to taxation by schedule was reduced in four years from two hundred and ninety-three to fifty-five. Judge Kelley introduced a resolution into the House for the abolition of the internal revenue system, and it was adopted with six dissenting votes, and in the next Congress only twenty-one votes were cast against adopting a similar resolution. Since that time the tide against abolishing internal taxation has been receding. Judge Kelley and those who voted for his resolution were moved mainly by two motives, relief to domestic production and a strengthening of our position against foreign competition. As we have seen, the increase of duties in several cases was to protect the manufacturer from his foreign competitor; if one part of the system could be retained, and the internal burden be removed, American production would be more secure. Very generally, therefore, all movements to reduce internal taxation, have been sustained by those in favor of the widest home production; on the other hand, those in Congress who contend for a different policy have been divided, regard for the wishes of their constituents requiring, in many cases, their support of bills to repeal internal taxes, though, knowing, that by doing so, they were rendering less possible a reduction of the duties on imports.

In dealing with the income tax, Congress, in March, 1867, raised the exemption from taxation from six hundred to one thousand dollars, and a uniform rate of five per cent

was substituted for the different rates of five and ten per cent. Three years later, the exemption of one thousand dollars was doubled, the five-per-cent rate was reduced one-half, and all the harsher features of the law were removed.¹ The collections were to expire the next year; as, however, the time drew near, Congress determined to continue the law for two years longer.²

The banks, while not tardy in making known their wish for a reduction, were not heard with a willing ear. Their dividends did not show, at the time of making their first application, that they were suffering more than others; on the contrary, were highly prosperous. They received a circulation on which a handsome profit was made, and there was a manifest propriety in requiring them to give a portion of their profits to the government in the way of taxes. One of the reasons why the banks desired their repeal was to lessen the rate of interest, and thus relieve the borrower. Such a keen regard for their customers was highly commendable, nor was this the first time that individuals and institutions had desired to be generous and helpful at the public expense. The history of mock-philanthropy is covered with the moss of ages. The Finance Committee of the Senate questioned the soundness of the reasoning contained in the application. "It is some-

¹ A strong attempt was made at this session to repeal the income tax. The secretary of the treasury, Mr. Boutwell, was opposed to the repeal. In a letter addressed to the Committee of Ways and Means, he said, "It is known to your committee, and to Congress, that the Act [of 1870] reducing taxes made a larger concession to the payers of the income tax than was made to any other important interest of the country. About forty per cent of the duties on tea and coffee, and thirty-three per cent of the duties on sugar were removed, while more than sixty per cent of the income tax was surrendered."—Feb. 6, 1871, *House Mis. Doc.*, 41 Cong., third session, No. 70.

² 12 In. Rev. Record, p. 69.

what doubtful," remarked Senator Morrill, who presented the report,¹ "whether or not such a removal would make any appreciable difference to the advantage of the customers of banks. Banks are, by no means, the sole lenders of money, and they are compelled to lend on as favorable terms as can be obtained elsewhere, or their loanable funds will lie idle. Banking institutions are intended to be, and are institutions for the accommodation of the public, but their managers do not forget that their stockholders prefer large rather than small dividends, and therefore they seek the highest legal rate of interest compatible with the full employment of their capital. They will demand about the usual market rates. The value of money in banks is not exempt from the universal law of supply and demand. Exemption from taxation would not increase the amount or diminish the demand. The rate of interest on capital available for use as money cannot be reduced except by competition, or except by increasing the amount required by borrowers. Those who have money to lend, including the banks, will get the current rates for it. Though it costs the lender much or little, the price for its use will be regulated not by the forbearance of the government, but by the demand." The committee believed the abandonment of national taxes on national banks would not be so much a favor to their borrowers as to their stockholders, and the latter did not appear to be very greatly oppressed or restrained from receiving reasonable dividends. No one pretended that banks and bankers were not receiving ample profits from their business, and the returns, which showed dividends averaging a fraction over ten per cent for several years past, with a constantly increasing surplus, would have refuted the pretence.

¹ Feb. 18, 1873, No. 453, 42 Cong., third session.

An application of the law requiring the payment of the tax on circulation was made in Northern Michigan, in 1874, wholly unexpected to those who issued it. For more than twenty years the mining companies in that region had issued notes for the payment of wages to their laborers. At first, they issued drafts for the precise amount to each man, which were drawn on the superintendent, or treasurer, or agent of the company, who lived at the eastern or principal offices. In this form they proved somewhat inconvenient to negotiate, and so drafts in small denominations, printed like bank-bills, were given and circulated. They did not remain long in circulation, for the merchants and bankers absorbed them and sent them East for payment. The internal revenue department, after delaying ten years, concluded to collect the bank-tax on these notes. The companies were clearly in the wrong.¹ The next year, however, Congress relieved them from the payment of it, as well as the ten-per-cent tax imposed on the circulation of State banks. The tax on State-bank circulation had a better and further reaching effect than was foreseen in the beginning; for, after a short time, individuals who attempted to pass poor notes as money in regions having a scant circulation, were effectually stopped by the internal revenue officers.

The depression of 1873 was costly to the banks as well as to almost every other kind of business; profits were reduced, their surplus melted away, and a much stronger reason existed for repealing or reducing the bank taxes; yet they were continued until 1883, and even now the tax of one-half of one per cent on circulation, payable semi-annually, remains.

The tax on matches was not repealed until a late day. The

¹ House Report, Feb. 22, 1875, No. 260, 43 Cong., second session.

explanation for the long continuing of this tax on an article of such general use is one of the most curious in our singular experience of collecting a revenue from internal sources. The law permitted a reduction of five per cent from the purchase price of a certain quantity of the stamps that were affixed to the boxes, and a reduction of as much more if the purchaser would prepare a die to be used as a private trade mark on the stamps. By these regulations, the large manufacturers could get both reductions, and the smaller none, and the advantage of the former class was very great. The business became a monopoly of the worst kind, the Diamond Match Company, whose principal office was at Wilmington, Delaware, absorbed nearly all the concerns in the broad daylight of law. Soon perceiving their advantage over others if the law remained, this company vigorously opposed applications for a repeal, and succeeded in defeating them until 1883. The country well understood the operation of this law. The people knew that one company was using it as a bludgeon to destroy all others ; and yet Congress remained inert and suffered the inexcusable ruin to continue.

Congress did not forget at the outset to grant an allowance, or drawback, on all articles on which an internal tax was paid, except raw cotton, refined coal oil, distilled spirits, manufactured tobacco, and some other articles, "equal in amount to the duty or tax paid thereon, and no more when exported." The evidence of the payment of the tax was "furnished to the satisfaction of the commissioner of internal revenue" by the claimant, and the amount was ascertained under regulation prescribed by that officer. When cotton goods were exported, the five-per-cent tax imposed on them was refunded, and a drawback equivalent to the price of raw

cotton used in their manufacture. The objection was raised that these heavy drawbacks would enhance the cost of cotton cloth considerably more to the consumer in this country than to the consumer abroad, but "it should be borne in mind," remarked the internal revenue commissioner, "that the tax upon a consumer here is a very light one; secondly, that by facilitating the export of cotton fabrics rather than of raw cotton, we enhance the aggregate value of our exports and thereby cheapen the cost of our imports."

With the repeal of the internal taxes drawbacks have ceased, and the only ones that have existed since the Act of March 3, 1883, are on distilled spirits and tobacco.¹ The law relating to drawbacks was changed from time to time, in order to prevent the perpetration of frauds that will soon be described. In 1868 the mode of assessing the tax on distilled spirits, which, until that time, had not been paid before their going into consumption, nor on those exported, was changed in order to lessen the frauds that had been practiced. The production was taxed at the still, but the producer was given a year for payment, during which time his product remained in the keeping of the government. No portion could be withdrawn without paying the tax, and within a year he must withdraw the whole. A bond was given, in addition to the tax to secure the government, for double the value of the product. This regulation continued for ten years, when the production of whiskey became excessive; and, in order to get relief, the distillers desired an extension of the time for paying the tax to three years. They asserted that, having learned a lesson, if the relief were granted they would not again overstock the market. Congress ex-

¹ Report of Com. of In. Revenue, 1884; Drawback Regulations from the beginning to 1867. Ex Doc., No. 41, 39 Cong., second session.

tended the time as desired for paying the tax, but when the three years had expired, the market was more heavily overstocked with whiskey than ever. The whiskey distillers again appealed to Congress, asking for the abolition of the interest due on taxes, and a reduction of the bonds to the amount of the tax. They renewed their promise of not manufacturing in excess of the wants of the market, and Congress granted the desired relief, in May, 1880. Instead of decreasing production the quantity became greater each year. The annual consumption is about 15,000,000 gallons, and, in June, 1882, 89,962,645 gallons were in store, a supply sufficient for six years. The taxes due at that time amounted to \$80,000,000. In the first session of the forty-seventh Congress the distillers rushed a bill through the House extending indefinitely the period for keeping their production in bond. This was defeated in the Senate at the next session, though that body gave an extension of two years for paying the taxes on the whiskey then on hand. The House did not act on this bill, and it failed. The owners next thought of exporting it, thus escaping the tax, and of reimporting it at a future time. The commissioner of internal revenue, Mr. Raum, and Assistant Secretary French, tried to aid the owners, who were the distillers, and also speculators and banks which had loaned money on the warehouse certificates given by the government officers to those who had deposited it. These officials tried to find a home for it in Canada by inducing the Canadian government to so modify their customs regulations as to permit the importation of this whiskey, and thereby enable the owners to escape paying the taxes then due. It was virtually a request, said one of the best of our newspapers,¹ that the Canadian

¹ Boston Advertiser, March 28, 1883.

government would change its laws so as to facilitate the evasion of the taxes coming due on whiskey, which had remained in bond to the limit of the law, three years. To say the least, it was an unbecoming attitude for these officials to take, in view of the refusal of Congress to extend the term of bonded whiskey, and so postpone the time of paying the taxes. It was hardly necessary to add that the Canadian government did not take kindly to a proposition so disgraceful to our officials and so humiliating to themselves. The commissioner then assumed the legislative function, and extended the time seven months for the owners to transport their whiskey from the country. This was an exceedingly long time to give, and especially when it is considered that he had no right to give any.

Leaving the reduction in the taxes on whiskey and tobacco for later consideration, we shall next consider the mode of administering the law. Collection districts were established by the President, the law limiting the maximum to the number of national representatives. In 1867, when the system had grown to its largest proportions, there were two hundred and forty districts, each having an assessor and collector. The assessor divided his district into a convenient number of assessment districts, and in each was an assistant assessor, appointed by the secretary of the treasury, who was nominated by the assessor and paid from the national treasury. The collector appointed his deputies, paid them for their services, and was responsible for their official conduct. The assessors and collectors also appointed their clerks; but their mode of payment was different, the appointees by the assessor receiving their pay from the national treasury, and the others from the collector.¹

¹ See Ex. Doc., No. 28, 40 Cong., second session.

At first, there was much pardonable inefficiency in administering the law in consequence of the inexperience of all who were engaged in administering it. Mistakes, involving sums varying from a few cents to many thousand dollars, were frequent. They were as likely to be in favor of the government as against it. Other difficulties arose from the changes in legislation. Regulations would be made and explained, and interpretations rendered by the courts, and which, as soon as well understood by the officers, became useless, often from a change of the law. Many of these changes were to increase or diminish the revenue, and were fully justified, yet they added greatly to the difficulty of assessing and collecting the taxes. "Next to frequent changes of officers," said Commissioner Rollins, in 1867, "there is nothing so prejudicial to the personal convenience and interest of tax-payers, and so productive of loss to the revenue, as frequent changes of the statutes." While officers were employed in introducing a new law involving great study and frequent correspondence to secure uniformity in its administration, honest tax-payers were fretted by obligations to which they were unaccustomed, and the dishonest found renewed opportunity for committing fraud under the protection of professed ignorance.

If frauds and errors were frequently committed in assessing and collecting the taxes on manufactures and other products, they were of small account compared with those on tobacco and whiskey. The taxes on these articles were laid with the least objection, and their maintenance is based on a solid, widespread opinion. Not all, indeed, favor their continuance, for not a few believe that persons should be permitted to drink, and smoke, and eject tobacco juice under as favorable conditions as they can do other things. But these are labelled

luxurious habits by public sentiment, and, therefore, may be discontinued without personal loss, nay, with great gain, and falling into this category, they are universally taxed. With respect to the producers, we have seen that in the outset they favored higher taxation; nor have they since opposed it, except on a few occasions, believing they will sell their commodities, whether the price is high or low. At other times they have not thought seriously about the tax, except when the product exceeded consumption. As the tax was advanced, the revenue declined, partly from diminished consumption, though principally from the evading of the law by the whiskey distillers. No change in consumption was noted by retailers until after the tax was raised above sixty cents per gallon; when the tax was increased to two dollars, the reduction in consumption, especially in the thinly settled sections of the country, was clearly perceived. As the taxes on whiskey were advanced, there was an immediate and very marked increase in the consumption of beer, the price of which was not affected by taxation to a corresponding degree with the spirit tax. In the large towns and cities consumption in the aggregate was not diminished by the high rates of taxes imposed on spirits. The demand for imported liquors largely diminished because of the higher duty imposed on them than on domestic spirits; on the other hand, the sale of American whiskey increased. "In fact, the great increase at this time in the price of foreign liquors greatly promoted the sale and use of whiskey in the northern and eastern sections of the country, and seems to have nationalized this liquor as a beverage, and also the term *bourbon*, which then, for the first time, was, in common parlance, generally given to every variety of American whiskey."¹

¹ Princeton Rev., July, 1884.

The frauds began soon after enacting the law, and quickly reached gigantic proportions. A Congressional investigating committee, in 1868, declared that if the tax were honestly paid, \$200,000,000 would be collected annually, when, in truth, not much more than one-eighth of that sum had been received. The members maintained that "with honest and efficient officers this tax could be collected." They certainly knew where every distillery was located, and could find out with reasonable certainty the production of each. A great majority of the frauds were perpetrated with the knowledge of the officers appointed to administer the law. One striking consequence was that in districts having honest officials, whiskey distillation almost ceased, while in the large cities, where it was easy to conduct the business in a dishonest manner, the number of distillers "wonderfully increased." In New York, within a brief period, they multiplied from ten or twelve to several hundred, though no one would question the fact that whiskey ordinarily could be manufactured more cheaply where the grain was grown. Many frauds were consummated through bonded warehouses, and only very few of them were located in districts administered by honest officials. The whiskey ring soon found out where they could store their whiskey and perpetrate their frauds without annoyance.

This ring achieved their first notable triumph when the tax was raised to two dollars a gallon, but which was not to be levied until February 1, 1865, months after the increase. "That law, without aiding the revenue, netted to the operators from \$50,000,000 to \$75,000,000." The dealers kept up the price of whiskey until the stock on hand was sold; then, defrauding the government of the tax on new whiskey,

sold it from twenty to eighty cents per gallon less than the tax, and yet made enormous profits.

The continued and regular sale of whiskey for less than the tax was conclusive proof of an evasion of the law. To prevent this, Congress enacted that if whiskey were sold for less than two dollars per gallon, the purchaser must show that the tax had been paid. The price of whiskey immediately went down. The best rectifying houses, alcohol distillers, and druggists everywhere, dealers, honest as the law and its administration would permit them to be, began to violate it. What could an honest rectifier do when paying two dollars a gallon, if his reckless neighbor paid only one dollar and a half? Thus the government actually forced honest men into bankruptcy by driving them from the business, or into combination against the law, and the doing of what they otherwise would scorn to do. Many of the best rectifiers in New-York City frankly told a committee of investigation that they were compelled to evade the law, or retire from business.

The law was easily evaded. Some sellers made out fictitious bills at the legal valuation, others sold at the fixed price, and made the purchaser a present of enough more to render the price paid equivalent to the market price.

Even the revenue officers did not regard the law in selling confiscated whiskey. The statute prohibited the sale of it at less than two dollars per gallon, and if it could not be sold for that price it must be destroyed; yet, at different sales by United-States marshals, it was bid off at two dollars, and the purchaser was charged with enough less than the actual number of gallons to reduce the price to that prevailing in the ordinary market.

The methods of Congress to prevent frauds proving futile,

the treasury department issued a stringent order that a receipt for the tax should accompany all sales. The whiskey ring was not in the least disconcerted by this order, nor was the price of whiskey advanced, for very soon tax receipts became abundant, and were sold in the market as freely as whiskey. The law provided that distilled spirits should be inspected, gauged, and approved as soon as manufactured, and then removed to a bonded warehouse, and stored until the owner wished to withdraw them for sale, when he must pay the tax. If not sent to a warehouse, the law required the tax to be paid immediately. Such spirits, however, could be removed from one warehouse to another by giving proper security. This regulation was fruitful of fraud. A permit would be obtained to transport, say, a thousand barrels, naming the destination. Instead of one lot, ten lots would probably be started, at different times and by different routes. Should either lot be seized on the route, the permit would be offered and the whiskey released! One lot would go into a warehouse, and the remaining nine be thrown on the market without paying a tax. The probabilities were that even on this lot the tax would not be paid. The owner would take it out, giving security therefor on pretence that he wished to redistill it, or change the kind of package, keep it a day, take out one-half, bring it back, and the pliant storekeeper would give the necessary certificates to show that it had been returned. If the owner were determined to pay no tax whatever, an exportation bond would be filed, the whiskey would be put on the market, the barrels would be filled with water and shipped. In due time, a consul's certificate from the port to which it was consigned would be produced to cancel the bond for exportation.

The government was defrauded of many millions by taking worthless bonds. A man of straw would appear as owner of whiskey in a warehouse. Bondsmen of the same kind would sign as security, make oath concerning the value of their property, the collector would approve the bond, and the whiskey would be taken and sold. Afterward, on examining the bonds, the fraud would be apparent, for the signers would have no property. "To such an extent was this carried, that bond brokers were numerous who furnished such bondsmen for a consideration. The same kind of security would be furnished by distillers, so that if detected in their villainy the government had no redress." A volume might be filled in describing the frauds perpetrated on the government by whiskey distillers and dealers during the early years of the internal revenue law ; these, though, must suffice until we reach another class of frauds of more recent date.

It would not have been possible to perpetrate them, and on a scale so gigantic, if the revenue officers had been competent and honest. Too many of them were neither. Store-keepers who carried the keys, and assessors who made returns for the distillery, were readily bribed. When Congress learned that the store-keepers and assessors could not be trusted, and permitted the removal of whiskey without paying the tax, inspectors were appointed to measure the quantity of distilled spirits produced, and to make returns. These officers were paid by the distillers. They quickly became the tools of those who paid them, and the law authorizing their appointment was repealed. Even some of the consuls in foreign countries were in league with the whiskey ring.

To destroy these frauds, which had grown to enormous dimensions, and stretched their strong roots in so many direc-

tions, was not easy. The harder Congress tried to combat them, the more they grew. Every remedy proved unavailing. Yet the treatment of Congress was half-hearted and superficial. First of all, the tax never should have been so much. A duty of four cents a gallon was levied on spirits under Charles II., and from this point it was increased until intemperate zeal and fiscal rapacity nearly extinguished all receipts from distilled spirits; our government, though with a better motive, passed through nearly the same experience. Again, all advances should have applied to the present supply; and, finally, the tax should have been paid when the spirits were produced, or taken from the warehouse. No excuse should have been given to transport spirits for redistillation, or for exportation. The distiller should have been required to pay the tax before making any use of his products. More than all, the inefficiency of the government in getting competent and honest officials to administer the law seems incredible. It probably was never so poorly served before, and let us hope that this experience will never be repeated.¹

One of the methods adopted to prevent the distillers from defrauding the government was to require them to use a spirit meter for registering the quantity of spirit passing from a still. Experiments were begun in 1866, under the direction of the secretary of the treasury, Mr. McCulloch, for the purpose of determining whether any meter existed which could be used for that purpose.² These were conducted at his request, by the National Academy of Sciences. In July, 1866, the committee made a report in three divisions, namely,

¹ Van Wyck's Report, No. 24, 40 Cong., second session.

² For history of this experiment, see Ex. Doc., April 20, 1870, No. 272, 41 Cong., second session.

"on proving the strength of spirits," "on gauging the quantity of spirits," "and on the means of preventing fraud." In the last division they expressed their confident belief that a spirit meter could be constructed which would "register the quantity of spirits passing from a still, and offer a reliable check on the distiller and the inspector," and recommended the construction and trial of an instrument based on the principle of Worthington's water meter. Next April they made another report. During the interval they had examined no fewer than thirteen meters. After considering all the requirements necessary to attain the desired object, and critically examining all the inventions and suggestions, they said that "the system of records, isolations, and checks proposed by Mr. Isaac P. Tice, of New York," offered "the most probable prospect of success," and recommended "the adoption of the meter and system shown by him." The treasury department did so, and required the distillers to deposit money or bonds to pay for them, and they were attached under the joint supervision of the manufacturer and the officer of the government. Before long, however, their imperfections were discovered. They did not correctly register the flow of spirits, and were kept in order only by the exercise of great care. In a few years they were removed, and, in 1872, the law conferring authority on the commissioner of internal revenue to require the distillers to use them was repealed. Then the distillers endeavored to make the government reimburse them for their outlay.¹ The distillers had reimbursed themselves for their meters, as they had for other machinery purchased, by obtaining more for their pro-

¹ House Report, No. 69, 42 Cong., third session, letter from Com. of In. Rev., April 2, 1870, Ex. Doc., No. 272, 41 Cong., second session.

ducts. The claim was one of the least inequitable, probably, ever presented to Congress, and was safely buried in due season.

Beside the ordinary machinery for collecting the revenue, some extraordinary machinery was devised, the description and operation of which must not be wholly passed over. Collecting revenue by contract is an ancient method; in this country very sparing use was made of it until 1873. The first contract was made in 1855, with a man named Rector, to collect a judgment in favor of the government, who was to receive one-third of the amount collected. Another contract, of a similar nature, was made in 1858, and a third five years later, and two others in 1867. The next year several contracts were made to recover the proceeds of cotton and Confederate property. Early in 1869, the secretary of the treasury, Mr. Boutwell, concluding that no law existed for making such contracts, abrogated them. The next year, however, Congress enacted a law authorizing the secretary of the treasury to make contracts within prescribed limits, for the recovery of "derelict property in the States lately in rebellion;" thus authorized, several contracts relating to the recovery of it were made during the next five years.

The conduct of these contractors was not creditable to themselves or the government, and the secretary of the treasury wrote to the Committee of Ways and Means, that "the law allowing shares to officers and informers in internal revenue cases ought to be repealed, and district-attorneys be deprived of all pecuniary interest in the cases of the government, originating in or in behalf of the government."¹ Accordingly, Congress abolished all moieties to internal

¹ May 25, 1870, Ex. Doc., No. 283, 41 Cong., second session.

revenue informers, yet into one of the appropriation bills was engrafted an innocent provision, authorizing the secretary of the treasury to employ not more than three persons to assist the proper officers of the government in discovering and collecting any money belonging to the United States, whenever the same should be withheld by any person or corporation, upon such terms and conditions as he should deem best for the interests of the United States, who were to be paid only from the property or money they secured. The history of this piece of legislation, whereby the action of Congress in abolishing the moiety system was not only revived, but converted into a monopoly, is extraordinary. An ex-member of Congress appeared before the Committee on Appropriations, and desired the incorporation of the above-mentioned provision into the legislative, executive and judicial appropriation bill. Fresh with the experience of informers and special agents of the treasury, the Committee on Appropriations were unwilling to comply with the request, but the committee of the Senate were more compliant, and that body amended the bill as desired. It came back to the House for concurrence, and, failing there a second time, went to a committee of conference. At this meeting it was agreed to let the amendment stand, with the further provision that no person should be employed to collect any claim who did not first fully set forth, in a written statement under oath addressed to the secretary of the treasury, the character of the claim which he proposed to recover, and imposing a fine in case any person should have the temerity to violate the law. Thus amended, the bill passed, the House squirming, and giving a majority of only ten votes. The law would not have passed had it not been incorporated in an appropriation bill, but the

desire to eat the oyster was so strong that the members, in order to gratify it, consented to swallow the shell. One of the members of the Conference Committee, Mr. Niblack, refused to sign the report, for it seemed to have the "odor of a job," and he feared that "sometime or other he should hear of this matter again, in some way which would not be creditable to the government."

Neither he nor others had long to wait. "The law was like nitro-glycerine in strong hands." A contract was made first with Mr. Kelsey, the member of Congress who proposed the amendment to the bill, and who did nothing; afterward with two others, whose transactions need not detain us, and then a fourth contract was made with John D. Sanborn, of Massachusetts. He was at that time employed by the government as a special agent. The first contract given to him was for the collection of taxes, illegally withheld by thirty-nine distillers, rectifiers, and purchasers of whiskey. Next he applied to have the names of seven hundred and sixty persons added to his contract, who, he alleged, had withheld taxes unpaid on legacies, successions, and incomes. These were added on the 30th of October. In March, the following year, two thousand names more were added, including those of three hundred and fifty foreign residents. In July there was finally added the names of five hundred and ninety-two railroad companies, "for taxes upon dividends, and interest paid upon bonds." This was the entire list of railroads taken from a railroad manual. In making his application, his modesty had not altogether perished, for he knew of the delinquency of only one hundred and fifty of them, but when he told the officers of the treasury department this, they replied, "It did not make any difference, and to put them all in;" and thus

contracts grew more rapidly than any flower by the cunning art of the magician. Mr. Sanborn had now a contract to execute large enough to have appalled a less adventurous being. Possibly the treasury department thought so, and this may be the reason why "the whole power of the internal revenue bureau, as well as the entire machinery of the government for the collection of taxes, was placed at the disposal of Sanborn." Certainly such assistance was wondrously kind, and, doubtless, Mr. Sanborn fully appreciated the unexampled favor. Sanborn collected \$427,000 of taxes, and the entire country was confounded with this unique business. Those were extraordinary times in administering the government, and the people were accustomed to new and curious things; indeed, they had not become completely calmed from the effects of war. Reckoning day finally came, and a committee of investigation asked the leading officers of the treasury department to explain their conduct. The committee, "feeling alarmed," they said in their report, "at the apparent looseness with which the law had been administered, had before them the secretary, Assistant Secretary Sawyer, and the solicitor of the treasury. The secretary gave but little information, and exhibited an entire want of knowledge as to the manner of making the contract, administering the law, or of the provisions of the law itself. His only connection, so far as he could remember, with these transactions, was in affixing his signature to the various papers presented to him as a mere matter of office routine, without knowing their contents. The assistant secretary disclaimed any particular knowledge of the law and contract, and he, in like manner, affixed his signature as a matter of office routine. The solicitor who prepared the contract declared that he 'had consulted in every instance with the secretary or the assistant

secretary of the treasury ; that he had in all cases simply obeyed the directions of his superior officers, and that the contracts and the various orders of the department were well known to the secretary and assistant secretary.’”

The committee looked with serious apprehension upon the apparent attempt of each of these gentlemen to transfer the responsibility from himself to others.¹ Nevertheless, no evidence during the long and thorough investigation proved that either of these officers had been influenced by corrupt motives. The transaction is the more singular, because the secretary had been so careful previously to the enacting of the law of 1870, in making contracts for collecting revenue from delinquents. The duties of his office were extremely arduous, and these contracts were regarded by him at the time they were made as small affairs compared with many others which daily engaged his attention. One fact is certain, the people were ashamed and indignant when they learned that such things could happen in administering the government.

Was not Sanborn an extraordinary man in scenting so many delinquents, even though the number were not so great as stated in his contracts? The committee told how this hunter succeeded in bagging so much game. “The information furnished by the paid officers of the government on which collections were made was placed at the disposal of Sanborn, who, availing himself of information paid for by the government, obtained a contract for the collection of the many claims thus brought to light and found to be due to the government.” Furthermore, all, or nearly so, of the taxes collected by Sanborn were not properly matters of contract under the law, and would have been collected by the internal revenue bureau

¹ House Report, No. 559, 43 Cong., first session.

in the ordinary discharge of their duty. Lastly, the commissioner of internal revenue, whose duty consisted in collecting the internal revenue, was utterly ignored in this disgraceful business, and a letter that he wrote to the secretary of the treasury protesting against the manner of these collections was never answered.

If the experiment of collecting taxes by contract was regarded with shame by the people, so were the more extensive frauds which were discovered during President Grant's second administration, and which had been practiced for a long time by the whiskey distillers and rectifiers of St. Louis, Chicago, and Milwaukee, through the assistance of numerous officials of the government. Their security from exposure and immunity from punishment, at first obtained by contributing liberally toward the presidential expenses of the Republican party in 1872, were afterward continued by paying the officials, who were especially charged with ascertaining and collecting the tax. As the scheme of defrauding widened, more official support became necessary, and this was gained without difficulty. When Mr. Bristow became secretary of the treasury, he learned through the editor of the St. Louis Democrat of the existence of this double-headed fraud, one head existing in Washington, and the other in St. Louis. The office of the commissioner of internal revenue was lined with members of the whiskey conspiracy. The secretary, therefore, quickly perceived that he could not look to the regular administrators of the law for assistance. Maintaining silence, as far as possible, he employed others outside the treasury department to collect the evidence against the wrongdoers. When all had been made ready, the exposure came. A large number of prominent distilleries and rectifying estab-

ishments were seized, the commissioner of internal revenue was summarily dismissed, and, shortly afterward, numerous indictments were found, followed by arrest. McDonald, the supervisor for Missouri, Joyce, the special revenue agent, and Avery, who, only a short time before, had been chief clerk of the treasury department, and McKee, the proprietor of the St. Louis Democrat, were among the number. Many of those arrested pleaded guilty, and were fined or imprisoned, or both. Those above mentioned were tried, convicted, and imprisoned. After Joyce's conviction, he obtained permission to make a speech in exculpation of his conduct. Beginning with a denial of his guilt, he proceeded to denounce his enemies, and compared the reform movement to an "epidemic," which had "risen, like the mist of a mighty flood;" nevertheless, he comforted the downcast and despairing who heard him, by assuring them that "the flood, even then, was settling into its former bed, where the crystal waters shall again reflect the green foliage; the oak, and the sycamore, and the gentle breezes and birds of spring shall make merry music in the cathedral aisles of a generous nation;" and so, under the cooling shade of his rhetorical foliage, he went to prison.

Thus the work of indicting, trying, and convicting proceeded in a most gratifying manner to all who believed in an honest government. No one, perhaps, rejoiced more heartily over these events than the President himself. He had said to Mr. Bristow, "Let no guilty man escape," and these words had acted like magic on all who were concerned in bringing the offenders to justice. The circle of the suspected constantly enlarged, until General Babcock, the President's secretary, was found within it. Then the attitude of the President

toward Mr. Bristow and others engaged in the work of prosecution changed. The President stood by his secretary, as firmly as did Pindar by the Hellenic mythology. He would not believe ill of him. It is true, General Babcock asserted his innocence, and desired a speedy trial. After a little reflection, however, he preferred to vindicate himself before a court-martial, and one was ordered to convene at Chicago. In the meantime, he was indicted by the grand jury at St. Louis, and a day was fixed for his trial. The evidence was not sufficient to convince the jury of his guilt, and he was acquitted. Whether he really was guilty need not concern us here. Two or three facts, however, are worth adding. The first of these is, when he learned of the prosecution against him, he telegraphed to St. Louis declaring his innocence, promising a full explanation of his correspondence, and demanding a trial at the earliest moment. At the same time, he telegraphed to another person, who was to convey the message to his counsel, "Tell him to employ assistance, if he wants, but to prevent my going there now at all hazards." None of his correspondence with McDonald was produced nor explained, and only a small portion of that with Joyce. His counsel fought to the utmost to exclude everything they could. Their course certainly did not square with his assertions of innocence and professions of eagerness to explain all that he had said and written. In truth, no public explanation was ever made.¹

The difficulties of the prosecution were enhanced by an order issued by the attorney-general of the United States, and directed to the district-attorney in charge of the case, that no immunity from subsequent prosecution should be given to

¹ The Nation, Nov. 25, 1875.

guilty persons who might be inclined to purchase their safety by turning State's evidence. The object of this was too clear to be misunderstood. The government desired no further revelations, it had had enough. The attorney-general afterward explained to an investigating committee of Congress why the order was given, and to their report¹ must the reader go who wishes to pursue any further this sad episode of commingled official and private fraud.

General Babcock and his friends were numerous and powerful enough to make the cry of persecution effective, and to lessen the President's regard for Mr. Bristow, and his efficient coadjutor, Mr. Wilson, the solicitor of the treasury. The relations between them and the President became strained, and both, not long after General Babcock's trial, resigned. With their exit, the reform movement quickly passed away, and ere long "the gentle breezes and birds of spring" were heard by Joyce and his fellow prisoners, for they were pardoned, and thus his prophecy, which caused so much merriment when uttered, was literally fulfilled.

It would require many pages to describe all the frauds perpetrated on the government in assessing and collecting the whiskey tax. One device was to wash the stamps used by the government and put them on again; another way was to get the barrels that had been properly passed and refill them; the mere mention of these frauds must suffice. One other, however, deserves more notice, that of illicit distilling. It has always been practiced to some extent, but, after the war closed, it increased in the more sparsely populated portions of the country, and, especially, in the mountainous regions of

¹ House Mis. Doc., No. 186, 44 Cong., first session. See, also, McDonald's *Secrets of the Great Whiskey Ring*.

West Virginia, Virginia, Kentucky, Tennessee, North and South Carolina, Georgia, Alabama, and in some portions of Missouri, Arkansas, and Texas. The annual loss to the government had been quite equal to the annual appropriations for collecting the entire revenue tax. In these regions were about five thousand copper stills, many of which were, at certain times, lawfully used in producing brandy from apples and peaches, and, at others, in the illicit manufacture of spirits. This business was conducted by a determined set of men, who leagued together to defend themselves against the officers of the government, and, at a given signal, were ready, in their various neighborhoods, to come together with arms in their hands to drive the officers of internal revenue out of the country. The collectors were supplied with breech-loading carbines, but the enforcement of the laws was a perilous undertaking. Much of the opposition was the continued feeling of hostility to the government, notwithstanding the war had long since ended. In some of the districts where illicit distilling was extensively practiced, leading citizens were either directly interested in the business, or were in active sympathy with the distillers, and the officers of the law received little aid or encouragement from the people in collecting the revenue, and in arresting and punishing offenders. In some cases, the State officers, including judges on the bench, sided with the illicit distillers, and encouraged the use of the State courts for prosecuting the officers of the United States on all kinds of charges, with the evident purpose of obstructing the enforcement of the laws. The illicit distillers "on numerous occasions" fired on the federal officers. The commissioner of internal revenue, in his annual report for 1878, from which the foregoing account has been taken,

added, "that when the officers of the United States were shot down from ambuscade, in cold blood, as a rule, no efforts were made on the part of the State officers to arrest the murderers; but, in cases where the officers of the United States were engaged in the enforcement of the laws, and had, unfortunately, come in conflict with the violators of the law, and homicides had occurred, active steps were at once taken for the arrest of such officers, and nothing was left undone by the State authorities to bring them to trial and punishment." The commissioner, however, relaxed no efforts, and during the next twelve months enforced the law with greater success. In a period covering a little more than three years, "three thousand one hundred and seventeen illicit distilleries were seized; six thousand four hundred and thirty-one persons were arrested for illicit distilling; twenty-six officers and employees were killed, and forty-seven wounded, while engaged in enforcing the internal revenue laws." Such is the brief story of the last great fraud perpetrated by the whiskey distilling interest. In regard to the frauds of other whiskey distillers, the method adopted in 1868 of measuring the product at the still, and of requiring the payment of a tax on that quantity, together with a selection of better officers for administering the law, caused a marked improvement, and since that time no heavy frauds of that nature have been committed. The quantity produced was accurately ascertained and the taxes were collected, except when the government otherwise directed, or an occasional failure or destruction of the product occurred.

The revenues of the government fell off so much after the depression of 1873 that the expediency of increasing the tax on whiskey was discussed in many quarters. The next year, the distillers, believing that the tax would be increased, with-

drew from the warehouses a large quantity, by paying the tax in order to get the benefit of the increase. In January, 1874, 5,430,021 gallons were withdrawn, and 11,504,356 gallons the following month. The tax was increased from seventy to ninety cents a gallon, March 3, 1875. The withdrawal of so large a quantity swelled the revenue for that year, but less was paid in 1875. Seven millions of gallons of spirits were in the bonded warehouses at the time of enacting the law, yet as the increased tax of twenty cents per gallon was not assessed on this quantity, the government lost \$1,400,000.¹ This was a needless sacrifice of revenue at a time when it was much wanted.

Turning now to the collection of the taxes on tobacco, it may be remarked that the legislation on this subject for the first five years was largely experimental, and necessarily so. As most of the tobacco consumed here was a domestic product, and such taxes had not been previously levied, Congress had no guide to follow in determining what rates to adopt, or what mode would prove the most popular and effective in collecting them. Many laws were passed with the view of collecting a larger revenue, and in a more effective manner; the rates of taxation raised on different grades of manufactured tobacco were from two cents to forty cents per pound, and snuff, from twenty to forty cents per pound, and on cigars, from one dollar and a half to forty dollars per thousand. A tax was also laid on the leaf in the beginning, but this was

¹ Com. Pratt's Report, 1875. "While legislation is pending, extraordinary efforts are made by the distiller and manufacturer to secure the benefit of the existing low rate to as large a quantity of their distilled and manufactured product as possible. After the law increasing the rate has gone into operation the market is supplied for a time with the surplus taxed at the low rate, and several months usually elapse before this surplus is exhausted, and the revenue flows again naturally in its accustomed channels." Ibid.

soon repealed. By some of the earlier laws the tax was made partly specific, and partly *ad valorem*, for the purpose of making the quality and price elements in determining the amount of tax that should be paid on a given quantity. This mode of levying the tax did not prove successful, and in July, 1868, the mode of collecting all taxes on manufactured tobacco, snuff, and cigars by means of stamps was adopted. The tax was made specific in all cases, and uniform on all cigars of five dollars per thousand ; on cigarettes weighing not exceeding three pounds per thousand, one dollar and a half ; on snuff, thirty-two cents per pound, and on all smoking and chewing tobacco two rates, one of sixteen cents per pound, and the other twice as much. This law was the outcome of careful study, and many of its provisions were recommended by persons engaged in the manufacture and sale of tobacco. The tax on manufactured tobacco, except snuff, was afterward made uniform at twenty cents per pound, and more stringent provisions were enacted to enable the government to control the movement of raw or leaf tobacco, and to prevent its sale for direct consumption, either by dealers or growers. At a later period, as more revenue was required, the rates on the several kinds of tobacco were increased twenty per cent.

Although the tax was levied on the manufactured product, and made payable by the use of stamps, which were attached when the tobacco was sold or removed from the place of manufacture for sale or consumption, it was added to the price and paid in the end by the consumer. The government maintained that, as the burden of the tax was thus distributed among the millions of voluntary consumers its weight could not be seriously felt, so long as it was not excessive in amount, and was uniformly and thoroughly collected.

In 1878 it was proposed to reduce the tax on tobacco one-third, or from twenty-four cents to sixteen cents per pound.¹ The reasons for the reduction were that the decrease would stimulate consumption and not diminish the revenue, and that the present rate depressed the value of leaf tobacco in the hands of producers, and consequently that they would be benefited by the reduction. These reasons were assailed by the internal revenue commissioner. He maintained that though the tax on tobacco was primarily paid by the manufacturer, it was, in fact, paid by the consumer, and it was well known that the retail sales, both before and after the passage of laws providing for a tax on manufactured tobacco, had been in small quantities. The existing tax was at the rate of one cent and a half per ounce, and the retail price five cents per ounce. It seemed incredible that a reduction of half a cent on the ounce in the tax would effect to any appreciable extent the retail prices charged on the quantity consumed. It was believed that persons who were in the habit of using manufactured tobacco would not, because of the smaller tax, consume a larger quantity, and it was "not to be credited that persons who were not in the habit of using tobacco would be induced to commence its use in consequence of the reduction of the tax." The commissioner therefore concluded that a reduction of the tax would result in a corresponding reduction of the revenue. With respect to the second reason, an examination of the market quotations of tobacco for a period of years did not show that the tax on manufactured tobacco had had a depressing effect on the market price of leaf tobacco. The business of manufacturing tobacco had annually increased,

¹ For effect of laws taxing tobacco, see speech of Mr. Winchester, May 21, 1872, *Cong. Globe, Appendix*, p. 592.

and had spread throughout the country. There was a competition among them for the various choice grades of leaf tobacco, and this would not be enhanced by a reduction of the rates of taxation on the manufactured article. The tax, however, was reduced, not with the expectation of stimulating consumption sufficiently to yield as much revenue as before, but in order to diminish it, as a reduction at that time was regarded with favor.

The mode of collecting the tax by the use of stamps was a marked improvement in preventing frauds. These were indeed practiced, but could not be so easily as before. The most serious evasions consisted in washing stamps after their official cancellation, and in using them again. As the system of internal taxation diminished, it became more simple, frauds were less frequent, and the laws were more easily enforced. Of the entire internal revenue collected in 1866,¹ \$50,128,079 were drawn from fermented and distilled liquors and tobacco; four years afterward \$93,251,439 came from these sources, and \$91,984,434 from income, including salaries, banks, matches, and other sources. In 1872, of the entire amount, \$131,770,946, the government obtained \$91,470,184 from fermented and distilled liquors and tobacco. Since that time a constantly increasing proportion has been derived from the last mentioned sources. Supplying such a large portion of the internal revenue from the time of establishing the system, they have always occupied a large place in the operations of the internal revenue department of the government, and it was fitting to give a considerable space to them in our history.

The reader, however, would have a one-sided notion of the operation of the internal revenue system if he inferred that

¹ Which was \$310,906,984.

the frauds and errors in administering the law were confined to distilled spirits and tobacco. The whiskey frauds were far worse than any other, but it must be remembered that the revenue from this source formed at all times a large portion of the internal revenue. Yet the whiskey distillers were not the only sinners, and forgetters of the law. Wrong doing and error have marked the conduct of all classes of internal tax payers in varying degree from the beginning. In 1881, the commissioner discovered that a large number of banks and bankers had not made correct returns of their capital and deposits for taxation. These discoveries were first made in Chicago. In many instances a subsequent examination brought to light only small sums due to the government, and which were evidently errors in the calculations of the banks. In the case of certain foreign banks doing business in that city, large amounts of taxes were found due on capital brought into the country and employed in banking. The results of the examination in Chicago led to an examination of the returns of banks and bankers in other cities. "It was found that while the returns of some banks had been accurate to the last cent, the returns of others had been made with deductions as to both capital and deposits, which were not admissible under the law." Many bankers readily submitted their books for examination, and showed a willingness to comply fully with the law. Others agreed to examine their books and make such statements as were required by the regulations established by the commissioner. Other bankers, questioning the right of internal officers to examine their books, refused either to produce them, or to answer interrogatories in regard to their liability for additional taxes. Against others the aid of the court was invoked to enforce compliance with the law.

The commissioner made two regulations at this time concerning the liability of banks and bankers which caused no little irritation. One regulation required the payment of a tax on the average gross amount of deposits. When the tax was first imposed, the question was immediately raised, What are the taxable deposits of a bank? Were they the total amount of money received by it during a day's business, or the amount left over after paying all checks drawn against the deposits during the same day? The government, in 1865, ruled that taxable deposits were those which remained after checks payable during the same period of time had been deducted; in other words, the balance or surplus which was free for the bank to use in making loans, and on which it could obtain a profit. This ruling, after application for sixteen years, was reversed by Commissioner Raum, and banks were declared to be liable for all the deposits remaining after the close of business, and checks drawn the same day against them, and settled at the clearing-house the day following, could not be deducted.

The other ruling required private bankers to return as deposits all money borrowed by them, to be repaid at a future day, with or without interest, whether secured by collateral or not, and also all sums left with them as margins on purchases of stocks, produce, cotton, etc., and that for purposes of taxation, brokers who received money in this way were to be considered bankers. This ruling excited much unfavorable discussion. One newspaper reasoned in this way: "If brokers are to be considered as bankers because they received money from other people in the way of margins, they must be bankers for all other purposes, and must be also taxed on the money they borrow. Thus three or four taxes may be gotten out of

the same deposit. But if brokers are bankers, why are not bakers, and milk peddlers, and ice dealers, and all persons who receive money and issue tickets therefor? Is not a lunch-counter, if the proprietor receives deposits and issues certificates redeemable in clams and oysters?"¹

With a repeal of the taxes the machinery for collection was rendered more simple, and fewer persons were employed. The supervisors and inspectors were among the first to be reduced in number and at length were omitted. In 1872 the office of assessor was abolished, and his work was done by direction of the commissioner. The internal revenue districts were consolidated into eighty, and the number of minor officers was diminished. Four years later another consolidation was made, and the collection districts were reduced to one hundred and thirty-one, and, in 1884, to eighty-five.² The cost of collecting the revenue has been given with considerable detail from year to year in the reports of the commissioner, and has centred around three and a half per cent, which is only a small figure compared with the expectations of those who enacted the first internal revenue law.³

¹ Boston Commercial Bulletin. See 36 Bank. Mag., p. 47.

² Report of Com. of In. Rev., 1884.

³ "From the great extent of territory, and the almost numberless objects of taxation, it was variously estimated, during the pendency of the first internal revenue bill in the thirty-seventh Congress, that the charges of collection would be from seven to twelve per cent, and it was freely argued that the excise proper could not reach the treasury for less than fifteen or twenty per cent of its amount."—Commissioner ROLLIN'S *Annual Report*, 1867.

CHAPTER VII.

TAXATION OF IMPORTS.

THE war proved a wonderful fertilizer to American manufactures, and they spread like a banyan tree. A few withered and perished from the effects of internal revenue taxation; some grew too rankly; but the principal industries struck deeply and securely into the soil.

The duties were raised several times after the introduction of the internal revenue system, for two reasons: first, to protect the American manufacturer from the effects of internal taxation; and, secondly, to obtain a larger revenue. The second reason, especially, for the advance, was too strong to be successfully opposed. Nevertheless, after the first year of the war, imports flowed into the country in enormous quantities. A large class had suddenly acquired much wealth; the income of wage-workers and salaried persons had largely increased, and their demands, united with the pre-existing demand, both public and private, strained the energies of the entire producing world. If, therefore, the domestic producer rejoiced over quickened demands and large profits, the importer also rejoiced over his unaccustomed prosperity. An enormous capital was put into new enterprises, and many built, bought, and sold as though the war would last forever. The people were regarded by producers as a boundless sea, into which they could endlessly pour their products without danger of overflow.

The war, therefore, was unquestionably a powerful stimulant to the manufacturer by creating a new and enormous demand for things. Here and there was a person sober enough to perceive that the government and the people were getting unexampled means wherewith to make purchases by putting a lien on the wealth of the country and on future earnings which they would be obliged to discharge, and from which they would gravely suffer if they did not. If the people discharged that lien, they would have less to the extent of the amount paid; if they repudiated it, the lenders would suffer to a similar extent. A large portion of the wealth consumed in war time was created during those four years, beside a surplus; consequently, the account does not look so appalling when viewed from all sides as from only one. Yet the stimulant was unnatural, and could not be long applied, and, when withdrawn, the excitement and anxiety concerning the result of the national struggle were succeeded by an anxiety concerning the future of business which, first appearing among the manufacturers and other employers of labor, soon extended to all classes, and continued, in varying degree, until the restoration of specie payments.

Beside the quickly vanishing demand of the government at the close of the war, the rapid decline in the value of gold was the first marked adverse influence to the manufacturing interests. The protective effects of the gold premium on manufacturing cannot be easily ascertained, because the prices of commodities did not respond to the advance in gold with much regularity. Imported commodities were influenced more strongly by the gold premium than others, yet even in these this influence declined as they wandered farther and farther away from the importer. He played tricks, too, with the

premium, by adding an additional sum to the price of his goods to insure himself against loss by variations in gold. When the premium exceeded the advance in labor and raw material, and other expenses of manufacture, the effect was favorable to the American manufacturer; when the premium was below the advance in these things, the effect was unfavorable to him. Putting the fact another way, when paper money drove up the price of gold higher than the price of other things, it acted as a barrier against importations; when the price of gold did not correspond to the advance in other things, the manufacturer was unfavorably affected so far as purchases were determined by the difference between the prices of foreign and domestic products. It must be remembered, however, that during the last three years of the war, when money was abundant, purchases were not always based on the principle of getting the most for the least money. Many felt very happy over their suddenly made fortunes and larger salaries and wages, and they were quite indifferent about the prices they paid. Some preferred foreign goods because they were foreign; others because they believed them to be better. Some preferred a large price to a lower one, getting more pleasure in the use and possession of the purchases than they would had they paid less. Moreover, while the speculation in gold was continued at a great height, importers could charge more for their goods, to insure themselves against loss from fluctuations in the price of that metal, without lessening their sales, so long as money was abundant, and the demand brisk. When sales began to flatten, then importers figured more closely, and the American producer was no longer helped by this adventitious circumstance. He now learned his first sharp lesson of the disadvantage of inflation. If prices in

general had risen enormously the premium on gold had sometimes gone even higher; when this suddenly declined, without a corresponding decline in the prices of other things, the importer was able to put his goods on the market at a lower price than before, and to the extent of the difference between their price measured by the gold standard and domestic goods of the same kind measured by the paper standard, he secured an advantage by the drop in the gold premium.

The first class to learn of the new order of things were the makers of war materials. Some of them had begun to learn before the surrender at Appomattox, for their contracts had been fulfilled and they could get no more. Others had contracts that would run for several months longer. In a few months at the longest, the war harvest was over and their summer was ended. They had made a great deal of costly machinery, and their first thought was to look abroad for contracts. In a few cases these were obtained; in most, the mills were closed; some of them went into bankruptcy, and nearly all of this class of accounts showed a balance on the wrong side.

The woolen manufacturers were the next to realize the change. The government had been an enormous purchaser; besides, the dearth of cotton had led to the substitution of wool to some extent. With the return of peace, came a fresh supply of cotton, the people enlarged their uses of it, and the demand for woolen goods speedily fell away. To guard against disaster, a convention of wool growers and manufacturers was held at Syracuse, in New York, in December, 1865. The object was to recommend higher rates on wool and woolen products, and, if possible, to get them adopted by Congress. In the joint report of both the producers and manufacturers

to the United States Revenue Commission, it was declared that the object of the Morrill tariff of 1861, and the tariff of 1864, was to give sufficient protection to the wool grower, and to put the manufacturer in the same position as he would occupy if his wool were free of duty. A duty supposed to be sufficient to protect the wool growers was put on wools competing with his own, and on woolen cloths supposed to be sufficient to reimburse the manufacturer for the amount of the duty paid on the wool. An *ad valorem* duty on the cloths was added to reimburse the expenses to the manufacturer of carrying the internal taxes, the duties on the wool, drugs, and other materials used in manufacture, and to furnish the required protection. Both classes, recognizing fully the correctness of the principle on which the tariff law¹ was based, declared that the minimum rate of duty actually paid on the class of wools most directly competing with our own had been less than five cents per pound instead of six, as intended by the law. They therefore recommended that a provision be inserted in the tariff law, requiring all the fine wools to be subjected to a duty of not less than ten cents per pound and ten per cent *ad valorem*, and that manufactures composed wholly or in part of wool or worsted should be subjected to a duty equal to twenty-five per cent after reimbursing the amount paid on

¹ "It was not devised to cover up the duty, or to conceal its magnitude, but as the best and only practicable means to give a duty compensatory of that on wool,—a duty which could be easily made specific, because the terms upon which it was based were fixed and well known,—and to give a further protective duty to the manufacturer, which, in consequence of the infinite variety and varying prices of the goods, making purely specific duties impossible, must necessarily be *ad valorem*." Extract from remarks of Mr. Hayes on the System of Compound Duties before the Tariff Commission. 12 Bulletin of Association of Wool Manuf., p. 435.

account of duties on wool, dye-stuffs, and other imported materials used in such manufactures, including all internal revenue taxes.

The wool growers and manufacturers had learned from former experience that neither class could expect to thrive at the loss of the other ; so the matter of adjustments was left to a joint executive committee, who made the recommendations mentioned. Henry S. Randall, R. M. Montgomery, and three others represented the wool growers, and E. S. Bigelow, T. S. Faxton, Edward Harris, and four more, the manufacturers. The tariff schedule, which was the final outcome of this convention, was incorporated into the tariff bill recommended by the revenue commission, and which failed to pass. Shortly afterward it was separated from the general bill, introduced, and became a law.¹

Wool was divided into three classes—carpet, clothing, and combing wool. The duty on the first class was fixed at three cents a pound, if costing twelve cents, or less, and doubled, if costing more than that figure. As this class of wool was not much grown in our country at that time, the duty was put at a comparatively low rate. On other classes were to be paid, if costing thirty-two cents a pound, or less, a duty of ten cents per pound, and eleven per cent *ad valorem*, and, if costing more than thirty-two cents, twelve cents per pound, and ten per cent *ad valorem*.

These rates did not appear to be much higher than the old ones, but by re-arranging the classification, a large amount of wool was subjected to a heavier rate than before. This led some manufacturers to complain of the tariff, notably Edward Harris, one of the most prominent woolen manufacturers in the country.

¹ Act, March 2, 1867, 39 Cong., second session, chap. 197.

On woolen goods a compound duty was levied, composed of three parts : first, fifty cents a pound to reimburse the duties paid on wool, dye-stuffs, and charges for carrying the duty ; twenty-five per cent *ad valorem*, which was intended for protection ; and ten per cent more, which was to off-set the internal revenue tax. On carpets, and dress goods for women and children, the specific duty was levied on the square yard instead of the pound, but the mode of ascertaining it was the same.

Thus the woolen manufacturers who were in greater danger than any large manufacturing class, at the close of the war, had strengthened themselves somewhat against foreign competition. The cotton manufacturers stood on more secure ground, while the iron manufacturers could hopefully look to the building of railroads which had been neglected during the war for the employment of their plant.

With the reduction of the internal revenue taxes many expected a corresponding paring down of duties on imports. In 1867, a bill was introduced, prepared by David A. Wells, at the request of the secretary of the treasury, reducing the duties on raw materials, and, to some extent, those on manufactured articles. A careful re-arrangement was made of the rates on spices, chemicals, dyes, and dye-woods. A great deal of labor was spent on the bill, the two-fold design of which was to reduce the duties somewhat, and to make a simpler and more intelligent classification. It was passed by the Senate, by a vote of twenty-seven to ten, as an amendment to a bill which had passed the House, and, afterward, by a majority of the House, but not getting a majority of two-thirds, did not become a law.

Although bills for reducing the tariff were introduced at every session, and the old arguments after a little furbishing

were repeated, nothing was done. If higher duties were imposed to get a larger revenue, and also to secure the American manufacturer against the effects of internal taxation, and the former thing was no longer desired, and the internal taxes had been reduced or repealed, why were not the duties revised and lessened? Because competition was so sharp among American manufacturers that no good was likely to be gained by reducing them. The consumer had no reason to expect lower prices if this were done. While prices were maintained, and even advanced on some things, until the depression of 1873, on most the trend was downward, and so there was not that keen interest in the subject that would have existed had manufacturers used the tariff to enrich themselves at the public loss. Nearly the whole period after the close of the war was a trying one with them to maintain their ground. There were special industries, it is true, which were very profitable, but the period of sudden fortunes had passed away. The people knew this, and most of them were content. Rarely did they petition Congress for a reduction of the tariff, or complain through the newspapers.¹ The subject occupied only a small place in party platforms, particularly in those of the Republican party, and agitation was mainly confined to college professors who taught political economy, and the daily newspaper writer, who, when times were dull, and exciting themes few, could always fall back on this subject for a column with a kind of hardened serenity, that, if not presenting the faintest new gleam of truth, he was, at least, doing his duty in keeping the lamp trimmed and burning for persons of imperfect sight.

¹ Petitions for a reduction of duties were singularly few until 1872. See House and Senate Mis. Docs.

In 1870¹ the duties on tea, coffee, wines, sugar, molasses, and spices were lessened. A reduction was made on pig iron from nine to seven dollars a ton, which was similar to the internal tax that had been repealed four years before. Some articles were put on the free list. On the other hand, the duty on marble was advanced, and also on steel rails to twenty-eight dollars per ton.

There was one person at this time, Mr. David A. Wells, who tried to show that the tariff should be reduced not only for the benefit of the people, but for the special benefit of the manufacturers themselves. He was special commissioner of revenue, and, as a consequence of his official position and the numerous and interesting facts gathered by him, the deductions in his four annual reports received wide attention. He was impressed with two facts: first, that the wealth of the country had had a seemingly fabulous development; and, secondly, that it was very unequally divided. He was unpleasantly surprised to learn that while the rich were becoming richer, the poor were becoming poorer. This state of things had long existed in the Old World, and particularly in Great Britain, where wealth had increased faster than in any other European country, but the correctness of the application of that phrase—which had been correctly applied elsewhere—to the industrial condition of the United States was widely questioned. No statement of the kind had ever been made before which caused a shock so cold and unwelcome.

The conclusion was of profound importance, especially in a country having no recognized non-employed class, and where the claims and interests of labor and of the poor from the first have been so kindly regarded.

¹ Act, July 14, 41 Cong., second session, chap. 255.

Mr. Wells referred "the inequality in the distribution of our annual product . . . in no small degree . . . to artificial causes," namely, an inconvertible paper money, and the influence of taxation, direct and indirect, on the cost of domestic production, and consequently on the ability of the country to exchange with foreign nations on terms of equality.¹

That many persons within a short period had become rich, and that many who were rich in the same period had become richer, could not be denied; but, was the assertion true that the poor had grown poorer? The assertion thus put forth in his third report was amplified and more fully explained in his fourth and last, and in that did not appear so harsh or questionable. Nevertheless, it kindled a fierce controversy. He presented some evidence which showed that more persons lived in a house in Massachusetts in 1868 than in 1861; that the average domestic consumption of cotton, woollen goods, boots and shoes, coal and lumber, had not been maintained; that the advance in the salaries or income of clergymen, teachers, and other professional men, as a general rule, had advanced since 1861, but not as much as the prices of commodities; and that the returns of the savings banks, though much larger than formerly, furnished no disproof of his assertion when properly explained. If the natural areas of plants be a highly complicated subject to determine, the causes of the unequal distribution of wealth were hardly less so, and, after a very brief investigation, to conclude that the existing distribution

¹ Fourth Report, p. 39. This Report was examined and severely criticized by the majority of the Committee on Manufactures. They say, "The fact is potent to all, that the general prosperity of the people during the past ten years, notwithstanding the drain of a great war, has been most marvellous and wholly unprecedented."

could be explained by the operation of two causes, taxation and an irredeemable paper currency, should cause as much skepticism concerning its truth as would the announcement after an equally hasty investigation of the plant life of the globe, that it is caused wholly by the chemical power of the solar rays.

With every successive report, Mr. Wells increased the stress of his argument that, in the producing and distributing of wealth all classes of persons were taxed for the benefit of the manufacturer. After showing, in his final report, how the gains of the producers had been transferred in several stages of society to the non-producing classes, he says, "We come now to the fourth stage of society, where the grosser methods of transferring property diminish and cunning comes in to take their place. This is the stage we now occupy. We have advanced no further, and have yet no laws to prevent transfers of property by cunning, artifice, and trickery. The unproductives are still animated by their ancient spirit, and being the chief makers of the laws and institutions for the protection of labor and ingenuity, the increase of products and the exchange and transfer of property, they shape all their devices so cunningly, and work them so cleverly, that they, the non-producers, continue to grow rich faster than the producers. Whoever at this day watches the subject and course of liquidation, and appreciates the spirit of the laws, cannot fail to perceive how more and more the idea of transfer of the surplus product of society, and the creation of facilities for it, available to the cunning and quick as against the dull and slow, has come to pervade the whole fabric of that which we call government; and how large a number of the most progressive minds of the nation have been led to accept as a fundamental truth in political doctrine, that the best way to take care of

the many is to commence by taking care of the few ; that all which is necessary to secure the well-being of the workman is to provide a satisfactory rate of profit for his employer.”¹ Then he puts underneath this statement a singularly thin layer of facts. The glaring defect in Mr. Wells’s exposition of the unequal distribution of wealth is its incompleteness.² Having found two causes for it, taxation and an inconvertible paper currency, he stops, thereby creating the impression that he had gone to the bottom of the subject. This was a grave error. No doubt the tariff had contributed, to some degree, in causing inequalities in the distribution of wealth ; and the paper money, during the period of the readjustment of prices, many more. Had the tariff accomplished only this, to tax the many for the benefit of the few, it would not have lived long. Mr. Wells, however, left wholly out of sight other persons, beside manufacturers, who acquire and retain wealth, and, by doing so, wrongly interpreted the facts of our recent industrial history.

It will suffice our purpose to divide wealthy persons into the following classes : (1) those who possess inherited wealth ; (2) or have gained it principally by accident, like miners and the owners of land that has risen largely in value ; (3) or have acquired fortunes in trade ; (4) or have acquired it through the assistance afforded by tax or patent laws ; (5) or have acquired illegal fortunes through unlawful speculation, stock watering, abuse of trusts, the perversion of corporate interests for private gain, and the like. Of the enormous fortunes, many of them belong to the fifth class ; while those

¹ Fourth Report, p. 39.

² Examination of Statements in the Report of Special Com. of Revenue, House Report, No. 72, 41 Cong., second session.

of the third class are very numerous. Those of the fourth class, which include the manufacturers, are doubtless neither so numerous nor so large as others. If these facts be correct, why did Mr. Wells single out the manufacturers and hold them up to the condemnation of the world as the "cunning" getters of wealth through the operation of law? Why did he leave wholly out of sight those who had accumulated vastly more, and whose operations had been far more wide-spread and gigantic in causing that unequal distribution of wealth of which he complained? Was his mind so completely filled with the doings of the manufacturers as to shut out wholly the conduct of the speculators, the railroad kings, the great trading princes, the fortunate gold and silver miners, the finders of oil, and that large unnamed number who had acquired fortunes in a thousand ways outside the operation of tax or patent laws? One would suppose from reading his reports that if the manufacturers had not acquired their wealth, he would not have been confronted with the great problem of the unequal distribution of wealth. This certainly would have been a mistake of the first magnitude; for, if the manufacturers had not existed, the other holders of wealth were in the land, and while the inequality would not have been quite as great with the disappearance of any class of wealthy men, yet the absence of the wealth accumulated by manufacturers would have reduced that inequality less than the absence of the wealth of almost any other class.

The question may be asked, If the tax laws were the admitted cause of this inequality to some extent, why not abolish or modify them so as to prevent it? An explanation is needful before answering the question. Admitting that the tariff has been the cause of an excessive accumulation of wealth

in some cases, such has not been the effect with every person who, under the protection thus granted, has engaged in manufacturing. The entire shore of manufacturing enterprise is thickly strewn with industrial wrecks. More enterprises have succeeded in the last twenty-five years than in any other period of equal length ; but whoever estimates the profits of manufacturers by short periods is sure to reach a wrong conclusion. If their profits are great at some seasons, their losses are, perhaps, as great, or greater, at others. Mr. Wells himself, in one of his reports, very accurately depicts the course of prosperity and decadence through which they have often gone. A proper estimation of their wealth must extend over a long period ; and, thus regarded, the manufacturers who can be singled out as having taken advantage of the tariff laws to acquire enormous private gains are few. It will be admitted that there are many who possess a fair amount of wealth, but surely they are not to be condemned when they have made it legally, nor is the system necessarily under which they have made it, nor the government under whose protection it is retained. Those who are industrious and sagacious, and who do more through natural or properly acquired endowments than others to create wealth, ought to be permitted to retain it. Society does not rebel at this proposition. Society rebels over the enormous fortunes, the great landed estates, the using of the government for individual gain by the loss of a larger number. We should not overlook the fact that many of the fortunes of manufacturers are founded on the protection afforded by the patent laws. This is especially true of many of the wealthiest. The successful manufacturers of textile fabrics have perhaps been less aided in this way than any other large class of manufacturers. Their products, have

not possessed enough novelty to secure the protection granted by the patent law. Many kinds of metallic products, however, and those of wood, paper, rubber, etc., have had such protection. After the baser elements have been separated from iron, copper, lead, and other ores they have entered very generally into the composition of patented articles. The word patent is seen on a very large number of the articles we buy. It is seen on nearly all agricultural implements, on numerous kinds of hardware, on almost all kinds of machinery. It is quite impossible to distinguish between the protection thus granted and that by the tariff with respect to profits. The profits of steel rail manufacturers, which for a short period were large, accrued chiefly from the protection granted by their patent. Had none existed, others would have rushed into the business, and the profits would have quickly melted away. To the manufacturers whose success depended chiefly on the protection of the patent law, the tariff has operated to diminish their gains, by increasing the cost of things used by them in their particular manufacture. In such cases, the tariff has acted as an equalizer instead of a protector to the manufacturer. Keeping these limitations in mind, the tariff has not been often used, compared with its general and long-continued use, to acquire those great fortunes which are regarded by society with much solicitude.

Returning now to the question why should not the tariff have been so modified as to prevent, if possible, the accumulation of great fortunes when such effects were discovered, we answer, it certainly should have been. These are, however, merely blotches on the picture, and not the picture itself. Before pointing them out, a further answer must be made to give completeness to the above inquiry.

If our system of taxation had been so radically changed that persons could no longer have accumulated fortunes under the smile and protection of the government, would the unequal distribution of wealth have been stopped? Certainly not, but transferred to manufacturers on the other side of the sea. They would have reaped the profits, and the American people, in the aggregate, would have been much poorer than they are. The relative inequality of wealth would have been less; the poor would have been equally poor, and probably poorer, and the rich manufacturers would have been unknown. Mr. Wells's argument is saturated with the idea that the wealth of the manufacturer was extracted from the people; that they were poorer to that extent, when, in truth, the wealth of the manufacturers was an additional creation, and which, if not created by them, would have been created by manufacturers in other countries. If prices had been lower, with no protective laws, then the foreign manufacturer would have made less, and the consumer would have had more, assuming, of course, the production of the same quantity in either case. What reason, though, have we to suppose that the prices would have been lower? Is not the foreign manufacturer intent in getting all he can? And if the American consumer could pay it to the American manufacturer, why could he not pay it to the foreign one? and, if he could, what reason have we for supposing the foreign manufacturer would have asked less? Would he have applied a higher code of ethics in dealing with the American consumer than the American manufacturer has applied? Would he have regarded America as a land wherein to exercise charity by remitting a portion of his gains? Whatever eagerness the American manufacturer may have shown in improving his condition, foreign manufacturers, at all times, have exer-

cised as much diligence and unscrupulousness. They, certainly, are not superior in moral virtues, in charity, nor are they less zealous in money getting. It is assumed by those maintaining the opposite view that competition would have regulated the matter, but competition between producers in the same country for a foreign market is a very different thing from competition in a country where both consumers and producers live. Moreover, competition is, by no means, the final law of trade in any country, or between countries.

Persons generally pursue the policy, which, immediately or prospectively, will be the most profitable; if this be competition, they will compete; if combination, they will combine; and often, when competing, the object is to destroy the weaker competitors in order to make combination possible.

What would have happened if protection had not been adopted is the battle-ground between the two sides to the controversy. Briefly stated, the protectionist maintains that the consumer, under the protective system, though paying higher prices in the beginning, is now paying for many things much lower ones than if he had not been supplied at home, beside gaining other most desirable advantages. The free-trader, on the other hand, maintains that prices would have been lower in the beginning, with an equally strong assurance of their remaining so, if the government had not interfered.

Thus viewing the question, how is an absolute answer possible? The question is one of conduct. Mr. Wells showed particularly that when the protection to woolen manufacturers was so large that tempting profits were expected, new factories were built, production was enlarged, and prices fell to a low point. The excessive profits made in the beginning were lost in the end, so that the unequal distribu-

tion of wealth among them did not last long. He showed very truly that these elevations and depressions are not good for society, but they have always happened, and are not diminishing in number nor intensity. Nor are they confined to our country, but pervade everywhere. They seem to be the inevitable accompaniment of our modern industrial civilization. In railroad building, which is not protected in the least by the State, but free as the Mississippi, the most gigantic over-production has taken place, succeeded by costly depressions. With respect to those caused by the tariff, they are not so numerous nor prolonged as formerly, like the narrower arc of the winter's sun. It must be remembered, too, that these times of depression are mighty levelers of the world's wealth. Regarding our protected industries during long periods of time, and keeping clearly in view the depressions they have encountered, the dispersion of the large gains in unprosperous times, the balance left to the manufacturer has not been large. Society probably would have been better off had these gains been more equal. Can it be shown, however, that American society would have been better off without these gains, and would they have been acquired without a protective system? Finally, it may be inquired, if the poor became poorer, was not the fault in many cases their own? If they did not put so much money into the savings banks, was not the reason because they chose to spend more. Why have so many manufacturers risen above their fellows? Not because they started above them in the race, but were more industrious and saving. The condition of the workingmen compared with the condition of those in other countries is far better in many regards, yet could be greatly improved by a wiser use of what they have. Because they have not made the best use of their means should

not be charged to the tariff any more than to the absence of the Rocky Mountains along the Atlantic. If they did not save in many cases, their surplus, after supplying necessary wants, what reason have we to suppose they would have saved their surplus had it been larger?

The discussion of the tariff would have been narrowed and brought nearer to a point if several considerations had been regarded and admitted. First, that the producers who have sought to establish and maintain a tariff have done so primarily to make money for themselves; second, that those engaged in business who have opposed a tariff have done so because the opposite policy would be more profitable to themselves; third, that protection in the beginning meant higher prices to some extent, and that the more widely protection was extended, the higher must be the prices or the less must be the protection. When all interests are protected, the advance is so great as to jeopardize all; when protection has stopped midway, dissatisfaction has sprung from the real or seeming impartiality. Too often certain protected interests have hesitated to accord the protection desired by others, well knowing that to do this would put their own business in jeopardy. The wool tariff of 1867 did raise the rates on fine wool to such an extent as to undermine the profit of the woolen manufacturers using fine wools, and led Edward Harris, one of the most prominent and successful among them, to conclude that he would be better off without any tariff on wool or his manufactures than he was under the existing system. He was struck by many a thunderbolt of criticism, yet we know no reason why a man should be condemned for exercising wisdom in his own generation.

Eliminating these elements, the subject is somewhat sim-

plified, and it may, we think, be correctly said that the manufacturer at all times has desired primarily the establishing and maintaining of protective laws in order to make money, not necessarily a great fortune, yet enough to justify the risk undertaken, while the question for Congress has been to what extent could such laws be made in the interests of the people. The free-trader has maintained that the profits of the manufacturer were a "tax," and which ought not to be levied, and that in exchanging both parties gain, otherwise they would not exchange. In every exchange both persons are gainers, yet it is of the utmost consequence to human happiness and welfare who gains the most. Although the man who gives five dollars for a bread-fruit to keep himself from starving is the gainer by the exchange, he does not gain so much as the man who pays five cents for one; and if each has a hundred dollars and can buy only bread fruit, the one will have a much better chance to continue his earthly existence than the other. If the American people had concluded to depend on the unselfishness of the foreign manufacturer, the strong probability is that our gain would not have been great enough to leave a surplus wherewith, if we chose, we could erect manufactures to compete with him. The example of Turkey is the more probable, where the British manufacturer has gained everything, and the Turks have nothing left. The Turks were gaining all the while, of course; otherwise they would not have exchanged. Yet paradoxical as the remark may be, the more they exchanged the poorer they became.

The test by which protection generally has been tried is that of price. If protection increased prices, it was to be condemned; if likely to reduce them in the end, protectionists have justified the action of the State. The soundness of this

test may be questioned. The Old World had a surplus of capital and population, and the United States an abundance of land and other natural agents ; and if, as a consequence of introducing the protective system, laborers have been attracted to this country more rapidly than they would otherwise have come, and their condition has been improved by coming, then protection is justified with respect to them. That the laborers are better off is proved conclusively by the fact that they are coming in ever-increasing numbers. Why do the poor of Great Britain and other countries flee to the United States if, as a consequence of so doing, they become poorer? Nevertheless, the wave of immigration is constantly rolling higher and shows no signs of subsiding. The fact is, their condition is immensely improved, and every new-comer, when fairly settled, begs his friends on the other side to follow. On this class surely the arguments of the free-trader have fallen as lightly as the snows on the mountain tops. This long-continued migratory movement toward our shore is the grandest transformation scene the world has ever beheld.

Moreover, the prices at which producers sell and at which consumers buy are often far apart. In the purchase and sale of products by the middleman, he has looked as sharply after his profits as the manufacturer has after his own. The middleman has not intentionally missed an opportunity to swell his gains. The prices of manufacturers have been lessened on many an occasion without lessening those paid by the consumer. Surely the tariff is not the cause of this condition of things. During times of depression, especially, when prices are falling, the reductions of middlemen very generally do not correspond to those obtained by themselves. One reason may be that their losses are heavier from creditor

purchasers, and it is necessary to stick more closely to the old prices to escape bankruptcy. Whatever the causes for their conduct may be, the fact is unanswerable, and should not be omitted in tracing the effects of tariff legislation.

Had dependence on Europe been the established policy, we should not have developed our great mineral resources; we should not have had many railroads, nor accumulated much wealth, nor would the settlement of the country probably have gone far beyond the Alleghenies. Whether the millions of foreigners settled throughout this country to-day are in a better condition than they would be if living in the over-crowded countries of Europe, it seems to us is the true test to apply to them to determine whether the existing policy is justified; and with regard to the Americans, while their condition would have been very different, possessing not much wealth, and yet having other compensations, the belief certainly is very general that they, too, are better off than they would have been had the other policy prevailed.

The tariff, in truth, is not a tax, but a loan made by those having more to the less favored, and on which the lenders have received generous dividends¹ which will be largely increased in the future. This is no deduction of fancy. Two solid facts support the statement; first, the growth of our manufactures is incontestable proof of the mode of employing the loan, and the low prices equally conclusive proof that it has been returned with generous interest.

It has been said that the lower prices would have come any way, that they are due to invention, and the like. What was the incentive for exercising the inventive genius, for

¹ Concerning the reduction in prices, see Rep. Haskell's Speech, 14 Cong. Record, p. 1686.

cheapening products, and for building factories? The protection held out by the government. We admit that it has often proved delusive, and costly; that many have suffered, and their hopes have turned into ashes; nevertheless, their faith to do and dare has been rooted in governmental action. Why are no tin manufactures existing? Because of a lack of sufficient protection. We do not ask the question for the purpose of showing what has been or ought to be done, but simply as a preface to the remark, that if a tariff should ever be granted sufficient to induce persons to erect factories, and acquire the necessary skill to produce, they would not stop, unless a reversal of governmental policy should be so complete as to shut out all hope of future success. This has been the history and influence of the tariff in the past. At all times it has been a powerful incentive to act, and in periods of discouragement has stimulated the exercise of the highest genius in invention, and in labor-saving, to prevent shipwreck. From all this toil, loss, and pain have arisen the most splendid industrial success the world has yet seen.

If the success of the protective policy, thus broadly regarded, justifies the experiment, it must be remembered that at all times it has been attended with evils, the effects of which would have been far worse had not persons been alert in exposing them and devising remedies. Again and again has protection been unwisely granted. The conflict among the interests protected is proof enough of this statement. Every tariff has been a compromise, and something of a bungle, in consequence of the contention of opposing interests. If, after hearing all parties interested in desiring protection, Congress had acted solely for the general welfare, the result would have been very different from that recorded on the statute book.

To show the defects in the tariff laws would be a long, if not tedious, task. Only some of the grosser defects can be noticed. One of these was the duty on steel rails in 1872. The duty itself was well enough, if the patent under which they could be made in this country had been free, so that competition might have existed at home. The principle has always been maintained, that if the American manufacturer were protected from foreign competition, the price, if so high as to yield large profits, would be corrected by home competition. To put up a high protective wall against outside competition, and then permit a few concerns to control the production at home, was a procedure for which there was no defence. If, in 1883, Congress went too far in reducing the tariff on rails, the manufacturers learned that the reason which animated more than one Congressman was to correct the blunder of 1872. Society is very slow in correcting social wrongs, and the longer the delay, as in the French revolution, the more terrible and irrational is the punishment. What Congress ought to have done, after fixing the tariff at twenty-eight dollars per ton, was to require the steel manufacturers to throw the patent open for free manufacture, and then the evil would not have arisen. Happily, no evil of that kind long exists in this country, for either the good sense of those profiting by it will return, and they will be content with smaller gains, or else their cupidity, like the fish in the sea, will cause a carnage among themselves. They extended the patents to other companies. The year after the law was enacted business was panic-stricken, became permanently depressed, the companies increased their output, and from the operation of these, and other causes, the aggregate profits in steel-rail making have not been excessive. Thus, the

wrong inflicted in the beginning has, in great part, been corrected.

Another wrong was the change in the tariff on copper in 1869.¹ Before that time the duty on copper ore had been five per cent, and on copper in bars and ingots, two and a half cents per pound. Copper ore was imported from Chili, smelted and refined in Baltimore. Just before the enactment of this law, the copper mines of Northern Michigan began to yield largely, and the advance was granted to protect them. When conglomerate copper rock was discovered in Northern Michigan of surpassing richness, the Calumet and Hecla Mining Company was organized, which produced copper at very low cost. It could mine copper, and sell it at a handsome profit, without any protection whatever. It could, in truth, produce copper more cheaply than any mine in the world. It was maintained that the tariff ought to remain, in order that the less favored companies might survive and make money; this, though, is a dangerous principle to apply. It was not regarded when the Baltimore and Boston smelting establishments were sacrificed for the copper-mining companies of Lake Superior, and why, in turn, should these have been saved when a richer vein had been discovered from which an abundant supply could be obtained? It may be said, that the smelting works sacrificed were small affairs compared with all the copper mines, except the Calumet and Hecla, yet such a principle is dangerous to apply in any case. Whenever nature yields an advantage to one, whereby he can sell at a lower rate than another, the State should not take cognizance of the event to neutralize the effect; for if it did, assistance would undoubtedly be asked to sustain the less fortunate

¹ Act, Feb. 24, 1869, 40 Cong., third session, chap. 45.

against others. The pig-iron makers having the old furnaces might, for the same reason, ask protection against the Isabella, which turns out one thousand tons per week, four times as much as the other. When, therefore, conglomerate copper ore was discovered, of abundant quantity, and the tariff was no longer needed to protect that industry,—for the company could, and did, profitably export copper,—the tariff should have been amended or repealed.¹

Moreover, it is true that the principle of protection has been applied too widely to make it the most effective. When Great Britain determined to become a great manufacturing nation, and to protect her manufactures to the utmost possible extent, what was done? The landed interests were sacrificed, capital employed in manufacturing was exempted from direct taxation under the excise, and raw materials were imported from foreign countries free of duty. As Mr. Wells properly says, “although not so termed, [this] is undoubtedly protection in its most subtle and effective form, and as such has been recognized and commented on by the French economists; inasmuch as it permits the British manufacturer to apply the largest amount of home labor to the smallest value of raw material, under such conditions as enables him to place his finished product in all foreign markets at the lowest possible cost.” In other words, our system which “taxes the consumer,” using the free-trade phrase, for the benefit of the manufacturer, is reversed, and the consumer is taxed more on

¹One limitation, at least, may be properly made to this principle. If a country possessing a natural advantage should seek to get more than a fair return for that advantage, other countries would be justified, it seems to us, in trying to correct such a state of things, so far as this could be done effectively.

his spirits and beer, and other things, so that the government can exempt the manufacturer from taxation. Wherein the condition of the foreign consumer is improved by thus paying more for his beer and other commodities than he would pay if the manufacturers bore their proper share of taxation over the condition of the consumer in this country, who pays more for the things manufactured here, and is taxed less by the government for others, we are unable to perceive. If the consumer is taxed here for the benefit of the manufacturer, is it not also true that he is taxed for the same purpose in Great Britain, though, as Mr. Wells says, in "its most subtle and effective form." And the subtlety and effectiveness consists in this, as the causes for the increased rate in British taxation are not clearly perceived, the tax is not thrown upon others, but is borne by the persons paying it, whereas in this country, when the price of a thing is raised through taxation, the effect, not infrequently, is so clearly perceived that an attempt is made to throw it off to some extent and to diffuse it among a larger number.

We are now in sight of a very interesting question, which has faced Congress from the beginning, yet has been growing in sharpness of feature with the diversifying of our industries. If one interest is protected, shall every one be, and if not all, where shall the line be drawn? The American manufacturer has never failed to perceive that the more widely the principle was extended, the less effective would or could be the protection granted. England solved that question with great boldness by declaring that the manufacturing and shipping interests should be protected at the sacrifice of the agricultural. If Congress had been more discriminating, and the general welfare had always been kept as clearly in mind as that of the interests applying, protection would have been so

moderate that rarely would an opportunity have arisen for making unreasonable fortunes, while the law thus conceived and executed by transferring from the consumers who could best part with a portion of their wealth, to those engaged in production, and who needed it more, would have stimulated the creation of wealth and equalized in some degree that existing. So far as the protective system has departed from this ideal, it has not wrought that perfect result which was possible. That such a system, however, involving so many interests, could work without friction and harm, would have been an unreasonable expectation.

In 1872¹ another change was made in our tariff system consisting of a reduction of ten per cent in the entire list, one-half of the duty on salt, two-fifths of the duty on coal, an enlargement of the free list, beside adding to it tea and coffee.² The consumers of coffee gained nothing, the importers of tea did a very little, the foreign producers nearly all.³ There was a short crop of coffee in the world, and it was easy for the producer to add the duty to the price. Had there been a large crop, the case would have been different, and either the importer or the consumer would have been the gainer. If advancing prices have followed a higher tariff, it is no less true that the importer and merchant have intercepted the tax when repealed, whenever they could. The public debt was large and the interest account heavy, and if a tax be a burden, why not pay the principal and thus escape the perpetual incumbrance? These considerations should have been put into the scale when discussing the expediency of repealing the tax.

¹ May 1 and June 6, 42 Cong., second session, chaps. 131, 315.

² See Proceedings before Com. of Ways and Means, Feb. 21 and 25, 1871.

³ Senate Doc., No. 19, 46 Cong., second session; N. Y. Times, June 5, 1880.

The reduction in 1872 of the general list was effected without serious difficulty. As the House was desirous of making a considerable reduction, a bill of that nature was reported by the Committee of Ways and Means. Mr. Dawes, of Massachusetts, was chairman of the committee, and not agreeing with the recommendations of the report, it was made by Mr. Finkelnburg, of Missouri. The bill lopped off the duties in many directions. In the meantime another bill was recommended by the Finance Committee of the Senate, reducing the duties on the entire list ten per cent. Not all the protected interests favored the reduction, but Mr. Hayes, Secretary of the National Association of Wool Manufacturers and possessing much influence among manufacturers, advised the accepting of the measure. The woolen manufacturers were the first to agree, the iron makers followed, and soon all opposition was overcome. The taxes on whiskey and tobacco were also lowered, and those on tea and coffee repealed. The Senate having passed the bill, it was sent to the House and substituted for the one recommended by the Ways and Means Committee. Many were opposed to it, and demanded a further reduction. In the end they voted for it, and so the bill passed.

It may be worth while to inquire what was gained beside reducing the revenue? It is said that this was a concession to the free-trade sentiment, but what effect did it have on prices? Literally none whatever. Manufacturers, notwithstanding the high rates of duty, had been reducing prices, through domestic competition, ever since the close of the war, and the bill did not effect them except to weaken the barrier between themselves and foreign competitors. There was no occasion for passing it on the ground that manufacturers were gaining too much. Except as a means for reducing the

revenue, it had no significance. Only one danger impended from the reduction—namely, that in times of excessive production in other countries, advantage would be taken of the lower rates to introduce more merchandise into our own country, and when, perhaps, an excess existed here, and so completely submerge our manufacturers. It is maintained, that a tariff tends to raise prices first and depress them afterward by stimulating excessive competition, and the history of American manufacturing proves the statement ; nor will it be denied that a more even price, yielding a fair remuneration, would be better for all interests. In reducing the tariff so low as to cause irregular floods from abroad, the supply of commodities is subjected to another fluctuation. Has not our history shown that we can regulate prices better among ourselves than by putting the tariff so low as to invite these irregular inundations from other countries ?¹ This is a serious danger from reducing the tariff, while the paying of too high prices, even if a high tariff be continued, will never continue long if home competition be active. If ever a time should come when manufacturers in their desire to get wealth should be so forgetful as to abuse their opportunity and combine in order to extort high and unreasonable prices, the justification would be complete for withdrawing governmental assistance. The justification for tariff legislation is to destroy and prevent monopolies, not to create permanent ones.

In 1875, the revenue having fallen to a lower point than was desirable the ten-per-cent reduction was repealed.² It did not attract much attention, and had no effect on prices.³

¹ See former vol., pp. 366, 387.

² Acts, February 8, and March 3, 43 Cong., second session.

³ Interview between a Delegation of Manufacturers and Com. of Ways and Means, April 28, 1874.

They were tending downward. Over-production, excessive trading and railroad building, had marked our history, culminating in the panic of 1873.

At every session of Congress attempts were made to pass a new bill reducing the duties. In 1876, Mr. Morrison, the chairman of the Committee of Ways and Means, prepared and presented a bill. Nothing came of this attempt, and two years later Mr. Fernando Wood, who was then chairman of the Committee on Appropriations, tried to do the same thing and failed.¹ The three reasons which operated powerfully against these movements were: first, all the revenue was needed that came into the treasury; second, prices were very low, and it was clearly evident that the manufacturers were not making too much, on the other hand, that many were running at a loss; and, third, the sentiment in favor of protection was growing. So these revenue reform measures, as they were called, though vigorously pressed by a few, were not generally supported, and came to naught. In 1879, however, the duty on quinine was abolished, and this event was regarded with considerable satisfaction.

At every session some speeches were made on the one side and on the other, for if a congressman were unable to master any question, he could easily prepare a speech on the tariff; or, if too busy or too indolent to do that, could easily get one prepared for a few dollars. In 1882, however, a movement was started that bore fruit. Congress appointed a Tariff Commission "to take into consideration, and to thoroughly investigate, all the various questions relating to the agricultural, commercial, mercantile, manufacturing, mining, and industrial interests of the United States, so far as the same may be neces-

¹8 Bulletin of Association of Wool Manuf., p. 113.

sary to the establishment of a judicious tariff, or a revision of the existing tariff upon a scale of justice to all interests."

Several things it was expected would be accomplished by revising the tariff, and the measure received the assent of nearly all the members of Congress. The free-traders expected to get lower duties, the protectionists expected to concede them in some cases, and in others to get such modifications as would remove existing ambiguities and strengthen themselves against foreign competition. The protective force of the existing tariff had been weakened in several important manufactures by rulings of the treasury department, particularly with regard to steel wire rods, imported for drawing into smaller sizes, steel blooms which are rolled into rails, hoop-iron, and cotton ties, channel-bars, tank-iron, and other matters. It was hoped that the disadvantages from which the manufacturers were suffering in consequence of these rulings would be removed by an intelligent revision.

The composition of the commission was as satisfactory to the manufacturing class as displeasing to free-traders. The commission heard all interests at much length, and sought to do their work thoroughly and with fairness. In determining the rates recommended by the commission, the members were governed solely, so they declared in their report, by their own views of justice, expediency, and a regard for the interests of consumers and the public sentiment of the country. Early in their deliberations, the commission became convinced that a substantial reduction of the tariff duties was demanded, not by a mere indiscriminate popular clamor, but by the best conservative opinion of the country, including that which had in former times been most strenuous for the preservation of the national industrial defences. Such a reduction of the existing

tariff the commission regarded not only as a due recognition of public sentiment, and a measure of justice to consumers, but one conducive to the general industrial prosperity, and which, though it might be temporarily inconvenient, would be ultimately beneficial to the special interests affected by such reduction. No rates of defensive duties, except for establishing new industries, which more than equalized the conditions of labor and capital with those of foreign competitors, could be justified. Excessive duties, or those above such standard of equalization, were positively injurious to the interest which they were supposed to benefit. They encouraged the investment of capital in manufacturing enterprise by rash and unskilled speculators, to be followed by disaster to the adventurers and their employees, and a plethora of commodities which deranged the operations of skilled and prudent enterprise. Numerous examples of such disasters and derangements occurred during and shortly after the excessively protective period of the late war, when tariff duties were enhanced by the rates of foreign exchange and premiums on gold. Excessive duties generally, or exceptionally high duties in particular cases, discredit the national economic system, and furnish plausible arguments for its complete subversion. They serve to increase uncertainty on the part of industrial enterprise, whether it shall enlarge or contract its operations, and take from commerce, as well as production, the sense of stability required for extended undertakings. "It would seem that the rates of duties under the existing tariff—fixed, for the most part, during the war under the evident necessity at that time of stimulating to its utmost extent all domestic production—might be adapted, through reduction, to the present condition of peace requiring no such extraordinary stimulus.

And in the mechanical and manufacturing industries, especially those which have been long established, it would seem that the improvements in machinery and processes made within the last twenty years, and the high scale of productiveness which had become a characteristic of their establishments, would permit our manufacturers to compete with their foreign rivals under a substantial reduction of existing duties." Entertaining these views, the commission sought to present a scheme of tariff duties in which substantial reduction was the distinguishing feature.¹

The free-traders were as surprised with the reductions as were some of the manufacturers. It could not be expected that all would be satisfied. Interests diverged in a thousand ways, and the only principle that could guide the commission in performing their difficult duties was, how far could they go in granting the requests of each class of manufacturers, and maintain an equal regard for all other classes of manufacturers and the public. That they attempted conscientiously and intelligently to do this not many will deny.

Those who did not get as much protection as they desired appealed to Congress. They were very much like Dr. Hayden, of the Geological Survey, who, when asked if he favored the bill for consolidating all the surveys, said he was in doubt. The doubt consisted in the probable effect of the bill on himself. If likely to be chosen director, he favored the bill; if not, he was opposed to it. Those whose interests were not injuriously affected by the report, believed in it; those whose interests were likely to suffer, endeavored to get redress through Congress. The hearings before the commission were open and fair, and Congress should have hesitated to re-open

¹ Report of Tariff Commission, p. 5.

the battle. The history of tariff-making is not particularly honorable in all its details to any party or interest. It has too often partaken of a personal fight by manufacturers against the public and each other. The struggle, on this occasion, before Congress lasted nearly the whole session. It was earnest, and sometimes bitter. Some interests were satisfied with the final result, others were not.

The attempt to modify the tariff brought into bold relief the numerous conflicting interests, and the difficulty and delicacy of the undertaking. As our industries become more heterogeneous, the tariff also grows more complex, and the difficulty of doing justice to all is increased. For example, the wool manufacturers to succeed best must have free wool and dye-stuffs; on the other hand, both these interests desired protection. The manufacturers of the higher forms of iron must have free materials to succeed best; on the other hand, the ore producers, the pig-iron manufacturers, and every succeeding class desired a tariff on their products. It was not easy for these interests to agree, and some of them did not. The iron-ore producers desired a tariff of eighty-five cents a ton on ore; the steel-rail makers were opposed to the granting of more than fifty; the manufacturers of fence wire were opposed to an increase of duty on wire rods used for making wire, and favored a reduction; the manufacturers of rods in this country were desirous of getting an increase; the manufacturers of floor oil-cloths desired a reduction or abolition of the duty on the articles used by them; the soap manufacturers desired the putting of caustic soda on the free list, which the American manufacturers of it opposed; some of the woollen manufacturers were desirous that protection should be granted to the manufacturers of dye-stuffs, and some were not; the

manufacturers of tanned foreign goat and sheep skins desired the removal of the tariff on such skins; those who tanned them, and who were much less numerous, were equally tenacious in maintaining the tariff on the raw skins, and the same conflict arose between other interests. The method of determining how much protection their several interests needed, and of adjusting differences between them, has always been of the crudest kind. The commission heard all interests, and evidently sought to act justly and intelligently, but a perusal of evidence collected, and of their report, discloses the difficulty of their task, and the necessarily unsatisfactory nature of the result. So long as manufacturers merely say they are making no money, or not much, and furnish no precise statement, they will be skeptical of one another, and the conflict between them will continue. If the tariff commission investigation revealed anything, it was that correctness of statement is required all around in order to adjust rates fairly between those desiring protection.

Although not all of the recommendations of the commission were adopted, most of them were. Those which pertained to the simplification of the law were adopted with only slight changes. The bill reported by the commission contained, not including the free list, six hundred and thirty-one articles and classifications. Of these, five hundred and twenty-four were taken exactly from the commissioner's report, and more than half of the remaining one hundred and seven articles were mere additions of trifling articles by name, which the commission, for brevity's sake, included under general clauses, or inadvertently overlooked. Less than twenty-five articles, mainly in the cotton, woolen goods, and the iron and steel schedules, were matters of contention. The rates on four

hundred and nine of the six hundred and thirty-one articles mentioned in the tariff recommended by the commission were adopted, and between fifty and sixty more articles have substantially the same rates, though levied under different clauses. Of the one hundred and seventy changes, ninety-eight were fixed at lower rates than those proposed by the commission, forty-six at higher, and twenty-six have been classed as doubtful.

As a revenue measure, the tariff has been an unquestioned success. Since 1862 the yield has been very great. Indeed, one object of reducing the rates subsequently has been to diminish the revenue.

As an effective measure of protection opinions have greatly differed. That the wealth created by manufacturing has enormously increased is apparent, but why? The manufacturers generally ascribe the increase to the tariff; yet how can this statement be reconciled with one so often heard that manufacturing is unprofitable. How can this seeming paradox be explained? After the woolen tariff of 1867, new mills were built, the business was soon overdone, and then followed a long gloomy period of depression and loss. The true way to answer the question is to consider the history for a long period, inasmuch as any kind of answer may be obtained for a short one, depending wholly on the period selected. The greater value of the manufacturing plant is positive proof, unless it be contended that the money invested has been drawn from sources outside manufacturing. While this is true to some extent, a much larger amount of wealth acquired in manufacturing has been invested in railroads and other enterprises, so that the entire account shows a large gain from the pursuit. There are two classes of manufacturers corresponding to the

two classes of farmers : one class never make any money, and see only dangers and depression and foul weather. The other class are more hopeful, acknowledge their gains, and rejoice over them. The first class are always living under the shadow of adverse governmental action, like doubting farmers, who, however bountiful may be the supply of water, expect it will dry up soon, and the scorching sun burn the land to a crisp. Each class are an equipoise to the other, keeping the scale of governmental action better regulated, and profits nearer to the right figure. If it be true that the success of the manufacturers is not wholly due to the tariff, it is likewise true that their losses do not always spring from the same cause. The effectiveness of labor-saving machinery, the generosity of nature, and many other advantages, have unquestionably contributed to their success. In short, it is due to a series of complex causes, and many of the errors arising in the discussion of this subject spring from the selection of one or two causes and the omission of the rest. It must be conceded that among the causes which have contributed to their success, but constantly varying in effectiveness, has been the tariff. On the other hand, the adversities of manufacturers, while sometimes caused by governmental action, have also been caused in other ways, and the opponents of the tariff system have sometimes ascribed these to the wrong cause. If invention has been a great aid, so has it been a costly one. Millions of dollars of machinery have been supplanted by better. At the present time a revolution is going on in the making of pig-iron by the introduction of an improved furnace, which has four-fold the capacity of the old one. Those who are making iron by the old process are having a hard time, and sooner or later must succumb. Others, seeing the

hopelessness of the struggle, are tearing down their furnaces and building anew. It would be possible, perhaps, to make a tariff high enough to protect both classes of manufacturers. Such a step, though, could not be defended. The people are fairly entitled to the advantage thus gained, and the possessors of the old cannot complain if the government will not protect them in sticking to the more costly mode of production. If the people had not the means to take advantage of the best and most economical methods of manufacturing in our own country, the case might be otherwise. Having the means, those who are working in the old ways cannot be justified by law. To do so would be to put a premium on the inert and to discourage those who are striving after greater perfection. The manufacturer of pig-iron by the old process, therefore, who cannot compete with the manufacturer by the new in consequence of the new invention, ought not to ascribe his ill-success to the tariff, nor ought any one to be sustained in the delusion that the tariff ought to be changed to rescue a perishing industry which is in that state in consequence of following a wrong method.

Changes of this nature are constantly going on in the manufacturing world. Invention is ever alert. New mines of iron, coal, petroleum, and other minerals are discovered, which render the old unprofitable for working; new railroads are built that divert trade and transform flourishing cities into a wilderness. A thousand causes have acted and re-acted on manufacturers, among which the tariff has contributed potently to their success. It is not equally true, however, that the tariff has been the principal cause of their failures. A prominent one has been their lack of skill and experience. The proof of this is seen on every hand. Skillful manufac-

turers have made money at times when others having as much capital and equal natural advantages have failed. Some have said that if no tariff had been established, the unskillful would not have been drawn into manufacturing, which is quite likely; yet it does not follow that they would have been more successful at something else. On the other hand, the pathway of mercantile pursuits, which is as free as possible, is strewn with a larger number of failures and unskillful concerns than any other. It has been assumed by Congress that only competent persons would engage in the business, and if others have done so and failed, they could rightly blame only themselves. Regarded in their entirety, the manufacturing interests have been successful, and not many will question this statement. "The country has grown marvelously under the system adopted. Of that there can be no doubt."¹

We now turn to the consumer and inquire whether his gains have been as large as he expected, or whether they have been large enough to justify the sacrifice incurred. For all will admit that, in the beginning at least, prices were raised to some extent by the tariff. What answer shall be given? Have not prices been much reduced? The history of receding prices need not be given here.

What would have happened to the farmer if the tariff had not been imposed? Would he have bought at lower prices? By many it is maintained that he would; by others this proposition has been strongly contested. What would he have obtained for his products? Admitting that they would have gone abroad freely, the foreigner, by reason of his enormous capital and ability to wait, would have made the prices, and the prices here would have conformed to them. For if the

¹ Editorial, N. Y. Times, July 4, 1883.

farmer had insisted on demanding higher prices from the American consumer, he could have satisfied his wants by importing. Thus the only possible advance for the American farmer over the European price would have been the cost of transportation. Under the existing system the farmer has influenced the price abroad, and has been more and more powerful in making it as his wealth increased. He has demanded more than he would have otherwise, and his market has been larger and more certain. Important as the foreign market is to him, it is of secondary importance to the home market, which has become large in consequence of adopting a policy which has attracted so many millions to our shores to engage in manufacturing enterprises. Their presence increases the consuming power of the nation, renders land more valuable, and, in turn, stimulates a better cultivation. Such are the conclusions clearly warranted by our industrial experience.

Finally, it may be asked, are prices as low as they would be if no tariff existed? Perhaps they are; perhaps they are lower. This criterion should not blind us to a better one, independently of the more comprehensive test of social advancement. Fair prices are more to be desired than very high or very low ones. When high prices issue from monopolies, somebody is likely to gain unduly; when very low, they are likely to be wrung from the ill-paid laborer. The low price thus caused should be as keenly regretted as the high price of the monopolist. Neither of these industrial conditions are healthy. The best price is a fair price, which is a fair equivalent for the service or thing exchanged. Have the introduction and maintenance of the tariff system disturbed the conditions of fair exchange? If the freedom of the buyer has been restricted in purchasing, has he not

at all times commanded the price of his own products, and, in selling them, stood on as high vantage ground as the manufacturer? Is not every person like a coin possessing two sides, a buyer's side and a seller's, and if, through the operation of the tariff system, the buyer has paid more than he wished, could he not increase the price of his own product and thus equalize the gain? This was possible when both buyer and seller were in the same country, but would not have been had the buyer lived here and the seller elsewhere.

Of course, every increase of price to the protected buyer was a diminution of his protection. Those who sold to him and others, however, in most cases, had a better way than that of advancing prices to regain their seeming loss. The area of their sales was enlarged and their aggregate profits were consequently maintained, or increased. The farmers, especially, if they paid more for many things, and yet added nothing to the price of their products, had a constantly widening market with the industrial development of the country, and so added to their wealth. Friction has, indeed, existed between the several classes; there has never been an hour of perfect harmony in the industrial world anywhere. Whether the friction in this country has been increased by the presence of the protective system, whether one class of persons, or interests, have thriven at the loss of another, is regarded by many as an open question; by free-traders as settled affirmatively; by protectionists as settled the other way. The evidence pertaining to the subject would fill many a volume, and is constantly accumulating. The popular judgment, certainly, is that every important industry has been helped more than injured by the presence of the others. The correctness of this judgment is daily questioned, and will be, doubtless, so long

as the existing system shall stand ; and if it shall be displaced by another, that one, whatever it may be, will never satisfy all. A harmony of interests, though the universal longing of the world, is a long way off, yet the clearest marks of progress are everywhere visible, and, especially, in the more intelligent production and fairer distribution of wealth.

Thus in a brief way we have gone over a great subject, whose earlier history was closely bound up with the origin of the government, and whose later history is glorified with an accumulation of wealth, experience, and general well-being that is the marvel of the world. The taxation of imports, which, in the beginning, prevented a closer union of the States than the feeblest combination, and possessing no common life, finally drew them by the imperious force of necessity into a union which has been strengthening with the years, and which long ago gained sustenance from a more enduring principle than that from which it sprung. In this long interval the taxing of imports has always held a prominent place in the national legislation, and has caused no little debate and ill-feeling. Is the gap between the contending parties as wide as ever ? In this long controversy several great facts have clearly emerged into view, with the statement of which we may fitly close our chapter.

The first fact is that the principle of protection is more completely embedded in public sentiment than in any former period. The evidence is abundant. If we turn to the conduct of political parties, we see that the platforms built from time to time by the Republican party have been growing stronger. The Democratic party, while not equally pronounced on this subject, have, nevertheless, been building in the same direction. At one time that party strongly favored free-trade,

passed the tariff of 1846, and adhered to it; but within the last fifteen years especially their platforms have been changing.¹

The leaders of both parties are desirous of getting and retaining the votes of the wage-workers, who also are consumers. The political leaders clearly see that the great body of wage-workers favor protection, and why? Because they are surer of the preservation of the market for the American manufacturer and, consequently, of employment for themselves; and because prices generally are not unreasonably high in comparison with those received for their labor. The second fact is, that the people are more and more opposed to those radical forms of protection whereby great fortunes can be swiftly acquired. Whence it follows that opinion on this subject is nearing a central line, that of reasonable protection, or the kind that is truly for the general welfare. That line is unassailable, and behind it our manufacturers can work and thrive in security. If they attempt to go beyond, they expose themselves to assault, with the certainty of ultimate defeat.

¹ See Appendix A.

CHAPTER VIII.

COLLECTION OF THE CUSTOMS REVENUE.

THE administration of the customs-revenue law has always been difficult and unsatisfactory. New York has been the chief port of entry, and the main interest of this chapter centres, therefore, around the New-York Custom-house.

When President Lincoln assumed the presidential office, Hiram Barney was confirmed as collector of that port. Republicans soon filled most of the offices at the other ports, except the Southern ones, which were closed. When the war ended the Southern ports were opened, and from Eastport to Brownsville on the Eastern coast, and from Port Townsend to San Diego on the Pacific, and along the Northern border from Duluth to Ogdensburg, the custom-house existed, and a large army of officials were administering the law. When Mr. Sherman became secretary of the treasury, he strongly recommended the closing of many of these offices which yielded an insignificant return, and so did Secretary Folger. Their recommendations were disregarded.

The principal custom-house officers have been appointed by the President and confirmed by the Senate. Generally their selection has been from the State in which they were to serve, although there was no reason for doing so. The revenue has been collected for a public purpose, and the mere accident of location of the ports ought not to have been considered in selecting the officers for administering the law.

If a different principle had been observed in making selections, the local power of political leaders would have been neutralized. From 1875 to 1881, when Mr. Conkling was the only Republican senator from New York, he was a powerful political boss, because he largely controlled the appointments, and through them exercised a demoralizing influence. His power culminated in 1878. An investigation into the affairs of the New-York Custom-house, which began immediately after the inauguration of President Hayes, revealed no little inefficiency, and the President determined to supersede the collector, surveyor, and naval officer. Messrs. Merritt, Graham, and Burt were selected for the places. Senator Conkling was madly opposed to the change. The Jay Commission had rendered their report, giving a clear and dispassionate history of the administration of the custom-house under General Arthur. Mr. Sherman transmitted the report to the House, and afterward sent a letter to the Senate, in which he briefly and calmly summarized the chief charges against the collector.¹

General Arthur replied, showing that some of the secretary's statements were erroneous, though not the weightier matters therein set forth; for they were unanswerable. No fraud was imputed to the officers removed, but their administration was marked with inefficiency; and the frauds of subordinates, while always perpetrated, doubtless, to some extent, had grown much. The contest in the Senate continued for several weeks, ending in the confirmation of the new appointees by nine votes.² The secretary of the treasury exerted himself to the utmost to succeed, for defeat would have been a serious thing for the administration. Senators were personally solicited to vote for confirmation, and these appeals were effectual. At first, the

¹ For letter and reply, see N. Y. Times, Jan. 28, 1879. ² For collector.

Democrats proposed to let the Republicans fight the battle. Finally they joined in the fray, Senator Bayard making the leading speech in support of confirmation, and Senators Voorhees, of Indiana, and Kernan, of New York, the speeches in opposition. Twenty Democratic senators voted aye, and five no; while among the Republicans the aye vote was twelve and eighteen voted no.¹ Thus, without the Democratic support, the administration would have been defeated. One objection that Senator Kernan raised to the new collector was his career as a political trickster, and that, however debased the office might have been for political purposes, General Merritt would go further. His prediction was not fulfilled. General Merritt introduced rational methods, the business of the office was conducted with promptness, favoritism came to an end, and less complaint was made against his administration from importers than had been made for a long period.

The contest over General Merritt's appointment, though fierce and long continued, was, after all, a tame affair compared with that over his successor, Mr. Robertson. He had been an enthusiastic supporter of Mr. Blaine for the presidency, and thus had incurred the ill-will of Mr. Conkling. Mr. Blaine, who was now secretary of state, desired that Mr. Robertson should be nominated for district-attorney for the Southern district of New York. The President, at first, sent into the Senate several nominations which were as pleasing to Mr. Conkling as they were highly displeasing to many others of his party outside, and especially inside his own State. In order to square the account somewhat, and, without consulting Mr. Blaine, the President shortly afterward sent into the Senate Mr. Robertson's name as collector of the port of New York.

¹ This included one Independent.

When the name was known in the Senate, Mr. Conkling was not slow to discern its meaning. Like Brunswick's fated chieftain at the Brussels ball the night before the battle of Waterloo, he was the first to hear the sound of war and rush into the fray, and fell almost as suddenly, ending one of the longest and most turbulent careers of political bossism ever known in this country. Action on the nomination was delayed many weeks. The President, having weakened under the fierce fire of his adversary, wished to withdraw Mr. Robertson's name, but, through the influence of his more steady-minded secretary of state and others, he was prevented from yielding. In this angry contention, Mr. Conkling resigned his seat in the Senate, and likewise his colleague, both expecting that an obedient Legislature would immediately re-elect them, thus furnishing them with a kind of letter of marque and reprisal to wage war on the President. The Legislature delayed to act at once, and the people, long tired of Mr. Conkling's rule, finally awoke to the determination of delaying, and, if possible, preventing their re-election. Although a large majority of the Legislature were in their favor, the pressure finally brought on the members from without to vote for other men was tremendous. Day after day the balloting went on without accomplishing anything. Nevertheless, every day's delay weakened the chances of re-electing the ex-senators. The people were growing bolder, the glamor of Mr. Conkling's name was passing away, and those who were looking after themselves sharply did not fail to perceive that if Mr. Robertson were confirmed and Mr. Conkling defeated, his name would be no charm with the administration. After a long and stubborn fight, others were elected to the vacant seats, Mr. Robertson was confirmed as collector, and Mr.

Conkling's occupation was gone. Mr. Conkling met his defeat at the hands of his friends because they no longer dared thwart the popular will. Thus may we hopefully believe that a just judgment sooner or later shall overtake all who, professing to serve the people, in truth, force the people to serve selfish leaders intent on perpetuating and strengthening their power.

It was fitting to linger over these two appointments because they were so exceptional. When Mr. Arthur succeeded to the presidential chair, Mr. Conkling importuned him to remove Mr. Robertson. The President's desire to gratify his friend was very strong. Had he yielded, however, to the request he would have embroiled his party and seriously injured his own reputation. The President merits no little credit for resisting the strong pressure from his most intimate friends, who were eager to overturn the custom-house, and to convert it into a place for hungry politicians and the cultivation of "plums."

The expense of collecting the revenue in 1861 was defrayed by a semi-annual appropriation of \$1,800,000, in addition to the sums received from fines, penalties, and forfeitures connected with the customs, and from fees paid into the treasury by customs officers, storage, cartage, drayage, labor, and services. The specific appropriation was for increasing the compensation to those collectors and other officers whose percentage on all moneys received by them for duties on imports and tonnage was inadequate.

The collecting officers have sought to reap the largest rewards they could in two ways: by the legal or semi-legal increase of expense to the importers, and sometimes by fraud. In New York, where the complaints have been the most frequent, a long series of vexatious charges to importers were rooted in the "general order" business, which will be briefly

explained. After a vessel had entered at the custom-house, a certain time was allowed to the consignee of merchandise for paying the duties and taking possession of the goods. After that time had expired, a general order was given by the collector of the port to discharge the cargo, and all merchandise remaining on board was landed and delivered into the custody of the custom-house officials. Goods discharged under this order were known as general order goods. For more than fifty years five days were allowed for this purpose. In 1854 they were reduced to three, and in 1861 to a single day. The secretary of the treasury, however, so interpreted the law that importers could make these entries and remove the goods within forty-eight hours after the arrival of the vessel. Prior to 1854, the time was so ample for the merchant to pay his duties and take his goods, that the small quantity left to be discharged under general order were stored by the government. With the increase of steam vessels, the time was shortened at the request of the ship owners. To steamship lines having regular days for the sailing of their vessels, the prompt unloading of their cargoes was absolutely necessary.

With the shortening of the time, importers were unable to remove as many of their goods as they had done previously, and the remainder were put into a "general order store," by virtue of a general order issued by the collector.¹ From this place they could not be taken until all charges due to the warehouse proprietor had been paid. These consisted of the cartage of the goods from the vessel to such stores, and their storage. The treasury regulation relating to the matter pre-

¹The Cunard and North German Lloyds were allowed the storage of such unclaimed goods as they transported in their own warehouses, which were under government supervision. Senate Report, No. 227, 42 Cong., second session.

scribed that the charges should “not exceed, in any case, the regular rates for like merchandise at the port of importation.”

The business soon assumed large proportions, and “the facile opportunity of its itemized nature admitting the constant absorption of small unlawful additions thereto, conspired to render its concession or lease eagerly sought after, as, in brokers’ phrase, capable of being made a good thing.” When Henry A. Smythe became collector, he early gauged the appreciable value and commercial use he could make by the disposal of the general order business, declaring, as he did, the very first day of his official life, “The North River general order business is the big plum for the collector.” Before his confirmation by the Senate, possibly before his nomination, even, he had agreed with certain persons that they should be pecuniarily benefited by the allotment or concession of the “plum business.” Accordingly, the general order business was farmed out in an extraordinary manner, and the “legal rates and charges” were so enormously increased as to arouse justly the indignation of importers.¹

¹ “Lanman and Kemp had twenty cases of quinine in Johnson’s warehouse, the legal rates and figures on which would be as follows:

Twenty cases, storage, ten cents each,		\$2.00
“ “ labor, “ “		2.00
“ “ cartage,		1.32
		5.32

The bill was rendered as follows:

Twenty cases, storage, fifty cents each,		\$10.00
“ “ labor, “ “		10.00
“ “ cartage,		10.00
		30.00

“It was testified before the committee that bills of such ‘make up’ could be multiplied almost *ad infinitum*.”—House Report, No. 30, 39 Cong., second session.

The committee who investigated into these matters, after a long "enumeration of Mr. Smythe's profligate practices in connection with the New-York Custom-house, paused from no lack of material, believing the finding abundantly sufficient to warrant and require and ensure his immediate removal from the office of collector of the port of New York."¹

The evil did not cease with the change of a collector. All the goods from the vessels to the storage warehouses were required to be carried by a cartage bureau created by the collector. Previously, this work had been done by "merchants, carmen," or "ship carmen," who were licensed by the collector, and gave bonds for the delivery of the merchandise entrusted to them. The new system was illegal. It was indeed the creation of the district carmen, sanctioned, it is true, by the collector. Its officers and agents were not officers of the government, gave no bonds, yet were permitted to assume an absolute control over imported merchandise. The merchants of New York claimed that as they gave bonds to the amount of double the dutiable value of their goods before they could obtain a permit for their removal from the docks, and having done all that the law required of them, they should be allowed to cart their own goods to the bonded warehouses without paying the bureau tax, from which they received no benefit. The collector established rates which were very high, though not so exorbitant as those previously charged in carrying goods under Mr. Smythe's administration. Secretary Boutwell ordered the abolition of the cartage bureau before Mr. Grinnell went out of office.² The general order business, however, re-

¹ House Report, No. 30, 39 Cong., second session.

² See letter to N. Y. collector, May 25, 1870, Ex. Doc., No. 313, 41 Cong., second session.

mained. The new collector, too, increased it by closing the warehouses of the foreign steamship lines in Jersey City and Hoboken, which were under the control of United States officers. They were erected on the wharves of the steamship companies in order that goods might be quickly unladen, and "the practice existed for many years to the satisfaction of all parties." In February, 1870, the collector "ordered that all goods discharged under general order should be sent to general order stores in New York under the control of private parties, where they were charged a month's storage, although removed by the owners instantly on their arrival." The Joint Select Committee on Retrenchment who investigated the matter at this time declared that they were able to discover no advantage resulting from the change "to any one except parties controlling the general order business."¹ The reasons given by the collector for taking the general order goods away from the Jersey City and Hoboken stores were, that they were unsafe, and that losses resulted therefrom both to the merchants and to the government, that they were also used for bonded goods, and that the steamship companies or their agents were themselves importers, having their own goods in these stores. These reasons were imaginary, and the committee recommended that until a preferable system should be devised, merchandise discharged under general order from foreign steamers at Jersey City and Hoboken should be sent, as formerly, to general order stores on the docks at which the steamers landed, under such increased supervision as the secretary of the treasury should direct.²

The recommendation was not executed by the secretary of

¹ Senate Report, No. 227, 42 Cong., second session.

² Senate Report, No. 380, 41 Cong., third session.

the treasury. The collector was changed; Thomas Murphy succeeding Mr. Grinnell, and Leet and Stocking succeeding to that portion of the general order business that had been conducted by the steamship companies. Under the former collector they had been connected with another firm who were engaged in it; and, consequently, were not novices when appointed by Mr. Murphy. The steamship companies were desirous of recovering their business, and the importers were dissatisfied with the system. The next year, therefore, the Senate ordered another investigation. This was very elaborate, the evidence covering more than two thousand pages.¹ All the galleries of this mysterious subterranean general order business were thoroughly explored. The specific charges against Leet and Stocking were, that they had not kept the goods sent to them securely, nor delivered them promptly, and had charged exorbitantly. These were declared to be unfounded, and if evidence were needed, said the committee, "of the wantonness of the charges," it was "found in the character of the relief invariably proposed." What was this? Not to deprive Leet and Stocking of the general order business, but only to restore a part of it to the Cunard Company, and another part to the North German Lloyds. The committee maintained that if Leet and Stocking had "abused the privilege accorded them, the remedy clearly was to take this privilege away." This had not been proposed. The committee did not think the steamship companies "ought to have control of general order stores," thus differing radically from the committee who examined the subject during the previous Congress. Senators Bayard and Casserly made a lengthy minority report, and thus ended an elaborate con-

¹ Senate Report, No. 227, 42 Cong., second session.

gressional series of investigations into the methods of swelling the returns to the collector at the chief port of entry in our country.

There was another "plum" for the collector of the moiety variety, which attained its full size in 1873. The revenue law of 1799 provided that every collector, naval officer, or surveyor, who had cause for suspecting a concealment in any place of goods on which duties had not been paid, should be entitled to a warrant, on applying to a justice of the peace, to enter such place in the daytime, and "seize and secure the goods for trial." This law authorized the seizure of suspected property, but not private books and papers, for the purpose of using them as evidence to condemn property. The law of 1863¹ greatly enlarged the power of the collector to prevent and punish frauds on the revenue. This Act was drawn by the solicitor of the treasury,² Mr. Jordan, and by it he had cognizance of frauds, or attempted frauds on the revenue, and was bound to exercise a general supervision of measures for their prevention and detection, and for the prosecution of persons charged with committing them.³ He had sole control of the books and papers seized from the merchants by order of a district judge of the United States, and on his recommendation any claim in favor of the government could be compromised.

¹ Act, March 3, 37 Cong., third session, chap. 76.

² The office of solicitor of the treasury was created in 1830, May 29. He had charge of all suits or actions for the recovery of any fine, penalty, or forfeiture. He had also power to instruct district-attorneys, marshals, and clerks of the federal courts in all matters appertaining to suits, in which the United States was a party or interested. He had authority to establish regulations for the observance of collectors, district-attorneys and marshals.

³ Proceedings of Boston Board of Trade and N. Y. Chamber of Commerce, relating to revenue laws, 1874.

Though subordinate to the secretary of the treasury and to the President, the solicitor was the real head in administering the law, as all applications made to either of those officers were referred to him.

Hardly had the law of 1863 become operative before complainings were heard. A Committee on Public Expenditures reported incidentally in 1864 that "seizures had been made, penalties had been exacted seemingly severe and disproportionate, but clearly within the provisions of the law made to protect the revenue."¹ One of the earliest noteworthy cases occurred in Boston, in 1865, in which a champagne importing house, paid \$100,000 to effect a settlement with the government. The government received one-half of this sum, and the other half was divided between the collector, and other officers concerned in the seizure.

The procedure under the law was simple, summary, and severe. A person must give the information on which to base legal proceedings. A custom-house inspector might make an affidavit of suspicion that a merchant had imported goods without paying the duties legally chargeable thereon, and that the invoices, books, and papers relating to such importations were in a certain place, whereupon a district judge would issue his warrant, and, armed with this, the store would be invaded, and the books, papers, letters, etc., would be seized and carried to the custom-house with the hope of finding evidence of fraud from an examination of them.

That such a procedure was a serious injury to the victim was evident. "He knows that his credit is injured, once it is whispered in Wall street that he is in difficulty with the custom-house; he knows, too, that if the report of such an

¹ House Report, No. 111, 38 Cong., first session.

imbroglio gets abroad, his foreign credit is impaired, if not destroyed; he knows, too, that without the possession of his store, he cannot sell his goods and meet his paper; he knows, too, that without his books and papers, he cannot arrange his balances or make his collections. In this garroting grip, therefore, often it is simply a question with him, Shall I give up a part and save something, or stand and contend, not with harpies of the law, not with the mere minions of office, but with the myrmidons of the government itself? Is it any wonder then, that, though conscious of no wrong, of perfect rectitude of intentions, when brought into the dissecting-room of the seizure bureau, he surceases opposition, allows the flesh pounds, blood and all, to be taken, and goes out, perchance, not a malcontent, but with new views of the laws and justice of the country.”¹

The seizures multiplied in number, and “revenue officers from habit became more fearless, if not less scrupulous in their proceedings.” Yet the law remained in force. In 1872 an investigating committee of the Senate plainly recommended that “moiety should not be allowed to officers of the customs, except in the case of smuggled goods seized. When goods are entered at the custom-house there should be no cheating in quantities or values. But the government should not bribe them to be defrauded by holding up to them great fortunes for detecting the fraud. The husbandman who pays his harvester a meagre salary for gathering grain, but offers him one-half for gleaning all that his own rake passes over, should not be surprised to learn that his servant rakes slovenly.”²

¹ House Report, No. 30, 39 Cong., second session.

² Senate Report, No. 227, 42 Cong., second session.

The informers, nevertheless, busily continued their work amid the increasing growls and lamentations of the importers. Congress looked on, the secretary of the treasury kept silent, the newspapers promptly announced the victims, and described the proceedings against them. In 1873 this singular business reached its height, when the long-established and honorable house of Phelps, Dodge & Company was attacked. The special agent of the treasury who conducted the proceedings was Mr. Jayne. The amount demanded of the firm was enormous. An explanation of the demand is worth giving, because it will show not only the uprightness of the firm in dealing with the government, but also the barbarous condition of the law which regulated the mode of importing. The law provided that duties on merchandise should be assessed on "the actual market value or wholesale price thereof at the period of exportation in the principal markets of the country" whence imported. Another provision of the law declared that when the goods were purchased and not simply consigned to a party in this country, the invoice accompanying the goods must declare their actual cost, which, though apparently a simple requirement, was in some cases a very difficult one, as will soon appear. At the time of this particular seizure, a ruling of the treasury department existed which increased the complexity of the importing business. All purchased goods must be entered at the custom-house at their actual cost when that was higher than their market value at the time of shipment, but at their market value when that was higher than their actual cost. For many years the firm had been an enormous importer of tin, and in ascertaining its value generally at the time of shipment at Liverpool no difficulty had occurred. From time to time, however, small quantities

would be received at Liverpool, mostly extra and unusual sizes, in fulfillment of old orders, and to value these correctly was not easy without much delay in forwarding them. It was not difficult to ascertain their market price, but what was the contract price? These were usually the remnants of contracts delivered long after the time stipulated, and as a deduction when settling such contracts was probable, their actual cost was not fixed, but contingent. The representative of the firm at Liverpool met these difficulties by marking up the price of the items in an invoice whenever an advance had occurred between the time of buying and of shipping, and of fixing the price of the smaller items, thus shipped long after they were ordered, at their market price. Although it was shown during the investigation of this affair, that while the representative had, in a few instances, slightly valued items at less than their cost price, in far more instances, and for larger amounts, he had valued the goods sent above their cost and actual market valuation, so that, regarding the importations of the firm as one transaction, the treasury had received more than it could have demanded by any construction of the law, or regulations of the treasury department.

An undervaluation, however slight, subjected an entire invoice to forfeiture,¹ and as the invoices of the firm were often for large amounts, a few small departures from a correct valu-

¹ Secretary Boutwell, in the annual treasury report for 1871, remarked: "One of the difficulties which the department has to meet frequently is, that the customs officers have an interest in the proceedings for the discovery of fraud, the settlement of cases, or in the prosecution of them which is different from the real interest of the government, and as a necessary result, the conduct of such officers is open to suspicion, both on the part of those who are pursued by them, and the government they ostensibly represent."

ation, resulted in rolling up a heavy bill against the concern. This may be seen, perhaps, more clearly by the following table of four invoices which fairly represented all the invoices during the period in controversy :

Invoices.	Invoice price of items.	Cost price of items.	Undervaluation.	Total duties paid.	Amount of duties on undervaluation.
\$20,365 00	\$235 00	\$238 75	\$3 75	\$4,073 00	\$ 75
25,570 00	1,301 25	1,341 00	39 75	4,114 00	7 95
20,035 00	458 50	458 50	.....	4,007 00	.....
36,611 00	1,359 50	1,353 25	.....	7,322 00	.....
\$102,581 00	\$3,354 25	\$3,391 50	\$43 50	\$19,516 00	\$8 70

Mr. Dodge, the senior partner in the house, whose innocence was believed even by Mr. Jayne himself, narrated the history of the seizure before a committee of Congress. In concluding his statement, he remarked : 1. That the total amount of importations by his house in the five years ending with 1872 was \$30,000,000. 2. That in a careful examination of these importations, some articles were found in different invoices which, it was claimed, were undervalued, and that the total amount of these was \$1,750,000. 3. That the total amount of the articles claimed to be undervalued was \$271,017.23. 4. That the total amount of the undervaluation claimed was \$6,658.78. 5. That the total amount of duties claimed to be lost was \$1,664.68. The deficiency in the amount of duty was so small compared with the enormous transactions of the firm, that only the most highly prone to suspect wrong-doing will imagine that the importers, in that case, ever intended to defraud the government.

"These facts," said Mr. Dodge, in his statement, "do not furnish the least evidence of intent to evade the customs law, especially when taken in connection with the fact that in one of these years we paid duties on overvaluation of our invoices of over \$260,000, to make them equal to market value. Our error was in entering them at a fraction less than contract cost in trying to meet market-value, and that only to an extent so small compared with the large amount invoiced above cost as to preclude all idea of wrong intent."¹

This seizure finally awoke the country, and the law was repealed.² The fruitfulness of this plum tree to the collectors can be best shown by figures :³

Hiram Barney	received from	April 8, 1861, to Sep. 4, 1864,	\$64,607.29
Simeon Draper	" "	Sept. 8, 1864, to Aug. 3, 1865,	55,014.55
Preston King	" "	Sept. 1, 1865, to May 15, 1866,	33,166.94
Henry A. Smythe	" "	May 16, 1866, to Mar. 31, 1869,	102,710.13
Moses H. Grinnell	" "	April 1, 1869, to July 20, 1870,	41,304.60
Thomas Murphy	" "	July 21, 1870, to Nov. 30, 1871,	55,997.54
Chester A. Arthur	" "	Dec. 1, 1871, to Nov. 30, 1873,	56,120.21

If the collectors, in seeking to enrich themselves, as above described, vexed the souls of the importers, and covered the government with discredit, the minor officials of the government have enlarged their income in ways not less opposed to honesty and good governing. From an early period money has been paid as bribes to inspectors and appraisers to secure the passage of goods without paying duty, or less than the legal amount. In these cases the government has suffered,

¹ History of the Proceedings in the case of Phelps, Dodge & Co.

² See Secretary Boutwell's letter on abolishing fines and moiety, Ex. Doc., No. 283, 41 Cong., second session.

³ Jayne's testimony before the Committee of Ways and Means, Mis. Doc., No. 264, 43 Cong., first session.

while the bribers and the bribed have been the gainers. In many of the investigations ordered by Congress, evidence has been adduced of these practices, especially by the Jay commission.¹ Their second report showed that it was a common practice among entry clerks, weighers, gaugers, inspectors, and storekeepers to receive from importers and brokers irregular fees in the nature of bribes. This practice was a matter of general notoriety in the custom-house, nor did it "appear that any effort was made by the collector, naval officer, or surveyor to suppress it."² In investigating claims known as "charges and commission cases," the fact was disclosed that the clerks thus engaged in making up statements of refunds, received gratuities from attorneys. If this hasty peep into the work of the New-York Custom-house will not suffice, the luminous record of that institution is accessible to all.³

In administering the revenue law, the officers of the government have encountered two other classes of difficulties of the gravest character, one class relating to a proper construction of the law, and the other to undervaluations. Some of the difficulties in construing the law will first be considered.

It would be quite impossible to enact a tariff law so transparent that the wisest even could see through every portion. All laws are capable of different constructions. The law reports are filled with cases explaining the meaning of statutes. The mind of man is curious, and he can raise innumerable questions. Even the most familiar principles of common law are subject to daily modification. The numerous law reports containing the decisions of the courts are the record of the

¹ Ex. Doc., No. 8, 45 Cong., first session.

² Secretary Sherman's letter to Pres. of U. S. Senate, Jan. 15, 1879.

³ See reports of investigating committees herein cited, and page 519.

doubtings and disputings of men concerning the law. The tariff is a highly complex law, and its meaning can not always be easily gathered. Nevertheless, a swift mode of determining it has been provided, which may be briefly explained. The duties of the customs officers, with respect to goods, are two-fold—the determination of the particular class under which they are to be assessed, and the appraisal of them to determine their value. The valuing of them is done by the appraiser, and if that be satisfactory to the collector and the importer, the work is done; if not satisfactory, the collector may order a re-appraisal if he thinks proper, or the importer, if dissatisfied, may claim a re-appraisal. The appeal is made to a merchant appraiser. He is supposed to be skilled in the article to be submitted to his decision. He is appointed by the collector, and one of the four general appraisers in the principal ports sits with him, and their decision on the value of the goods is decisive, if they agree. If they do not, the collector decides the matter, and his decision is final. From it the importer cannot appeal, either to the secretary, or to the courts. In classifying imports, the collector determines whether they are iron or steel, cotton or wool, or belong to a particular specification under those or other heads. The work is usually done in the appraiser's office. The appraisers report to the collector the class to which the goods belong. He not knowing as many of the details as they, usually accepts their classification, and, if it be wrong, an appeal is taken from the collector to the secretary of the treasury. In doing this, a protest is first filed with the collector, stating, in a general way, that the importer is dissatisfied with the classification, how the goods were classified, and how they should be. If the collector declines to change it, the papers are sent to the secretary, and are referred

to the customs division of the treasury department. If the question involved is one of routine (and most questions are) the chief of the division prepares an answer for the signature of the second assistant of the treasury to sign, who is charged with the supervision of the customs duties. If the question be doubtful, or a new one, the chief calls on the assistant secretary, and the two hold a consultation, after which the former prepares an answer for the signature of the other. If the question is thought very important, the assistant goes to the secretary, and the two consider the question. If they are in doubt, the opinion of the solicitor or the attorney-general is asked. Having formed an opinion, on the best advice he can obtain, the secretary renders his decision or answer. If he approves the action of the collector, the importer can bring a suit, if dissatisfied, within a fixed time for the determination of the question by the court. The decision thus rendered is final.

The great multitude of questions that arise in the collectors' offices, and which go from them to the treasury department, stop with the answers rendered by the secretary, or his assistant. Nevertheless, the cases appealed to the courts are so numerous that an attempt has been made to establish a special tribunal or customs court to try them. Were this done, the federal courts would be relieved of that class of cases, and the differences between the importers and the government would be more speedily adjusted. The existing method, however, is expeditious, except appeals to the courts, and if officials were always competent and honest, some of the evils in administering the law would disappear.

Many questions, however, are so enmeshed in the law that it is difficult to extricate a satisfactory answer. Of course, when the secretary, or his assistant, renders a decision which

is accepted, the path of the collectors is rendered easier. But when an appeal is taken to a court, and a jury at one time renders a decision one way, and a few weeks afterward, in a similar case, decides differently, then what shall the collectors do? Shall they follow the decision of the first jury, or that of the second? If they follow the first until the second is rendered, and then follow that, suppose the next higher court shall reverse the decision in the second case, or suppose the supreme court shall finally reverse the decision of the court below? This is one set of troubles for the collector. There is another, and more common set. A judge of the district court in New York will render a decision, and a judge in another district will render a different decision; who is right?¹ And if the collector in each district follows the last decision rendered by the tribunal in his district until a decision is rendered by the supreme tribunal, the importers, in the meantime, pay different rates of duty, and, therefore, some are able, through the uncertainty of the law, to obtain an advantage over others in selling their goods.

These difficulties may be shown in a few of the many cases. The ordinary reader would suppose that the question whether a custom article was iron or steel might be settled without difficulty. Different rates of duty have been imposed on the two metals, and hence the necessity of answering the question. A lawsuit, lasting several weeks, was tried in Boston in 1882, involving that question, and, notwithstanding all the evidence offered, and the skill employed to ascertain the truth, the result was not accepted as conclusive by the defeated party. The cotton-tie controversy has been one of the most important under the tariff law. The law prescribed a much

¹ Testimony of Assistant Secretary French before the Tariff Commission.

higher rate for hoop-iron than for manufactures of iron. The cotton-tie was a piece of hoop-iron eleven feet long, and, at first, with a buckle riveted to one end. That was classed as a manufacture of iron, and subjected to thirty-five per cent duty. The treasury department so ruled, and was afterward sustained by a jury. Then the importers found there was no need of riveting on the buckle, and the hoops were sent in packages, and the buckles were strung together. Then the manufacturers claimed that the article thus imported was hoop-iron. The treasury department finally decided that a cotton-tie which had not a buckle on it was hoop-iron, and should bear the higher duty imposed on that article. An equally vexatious question arose over cut hoops with holes punched for rivets. The department, at first, ruled that this was hoop-iron. An appeal was taken to the court, and these cases were tried by the jury. In the first, they found a verdict for the importer, but it was set aside; in the second case they disagreed; in the third, they found a verdict for the importer. The government acquiesced in the decision until 1878, when Mr. Sherman, who was secretary of the treasury, sent a communication to Congress, announcing that he was reconsidering the question, and should reverse the decision of the third jury if no legislation was had on the subject. He did so, thus subjecting the hoops to the duty on hoop-iron. When this treasury decision was made, importers came immediately to Congress, and to the treasury department, and said, "We were misled by this decision of the department, and have invested our money, and our merchandise is on the way. We are willing to pay the duty fixed by the department when we ordered the goods, but we are not willing to pay three times as large an amount, and will not do it." Congress listened, and granted relief on all

importations covering a certain period. The Standard Oil Company was the heaviest importer.

Other questions arose over a section of the tariff prescribing the duty on articles of which silk was "the component material of chief value." The appraisers and examiners had great difficulty in determining the actual proportions found in such an article. Moreover, what did the words "chief value" mean? Must the article be more than half silk, or must silk be only more than either of the other components, to come under that designation? A section of the law in operation before 1883 contained a proviso that it "should not apply to merchandise which had as a component material twenty-five per centum or over in value of cotton." Under that section the question arose whether a certain article had more than twenty-five per cent in value of cotton in it. The question was given to experts. They said if Sea Island cotton were used, there was more than twenty-five per cent in it; if common cotton, less than that amount, but "nobody can determine whether it is Sea Island cotton or not."

Ambiguities were created by using terms too loosely. "Goods of a like description," and "goods for similar use," were traps wherein many an importer was caught. What did they mean—similarity of use, similarity of structure in the weaving, similarity of materials, or some other? This ambiguity ran through the warp of the cotton tariff. Another kind of ambiguity arose by so describing articles as to put them under different classes.

These difficulties, occasioned through lack of wisdom, were numerous and bad enough, yet were not the worst. New articles were constantly made and imported, and many a vexatious question arose as to classifying them. In many cases they were produced in order to evade the duties imposed by

the law, or to slip through at lower rates. For example, the law enacted that nickel should be assessed at thirty cents a pound, and nickel alloy at two-thirds that rate. Importers accordingly combined copper with the nickel in order to evade the higher duty. At first, the combination contained about fifty per cent of copper; finding that the fraud worked well, importers grew bolder and imported an article containing ninety-five per cent of nickel and five per cent of copper.¹ Though no one doubted that the object of the combination was to defeat the law, the treasury department could find no remedy; for had not the Supreme Court of the United States decided that if importers colored sugar artificially for the purpose of lessening the duty, they had a right to do so. The duty on sugar was determined by color, instead of saccharine strength, and by coloring it with black molasses in a vacuum pan, sugar of the highest quality was reduced to the lowest and was assessed, therefore, for only the smallest duty.² But yet the law was not always successfully evaded by the importer. One section provided that all machinery composed in part of iron and steel should be subjected to the higher steel duty. An individual imported a valuable machine made wholly of iron, except a small steel spring. That spring proved a very costly accompaniment, for by this was the classification determined.

Having now shown the principal difficulties in classifying dutiable goods, we shall consider some of the difficulties encountered in ascertaining the correct valuation on which the duty is assessed. With honest importers, of course, no difficulty exists. Unhappily, very many importers are not of

¹ The Duty on Nickel, by Joseph Wharton.

² For effects of the Hawaii treaty on sugar interests, see H. A. Brown's *Concise Résumé of Sugar Tariff Topics*.

this type, and the practices to which they have resorted in order to reduce the assessable valuation would require volumes to describe. "The ingenuity and depravity alike of the Old World and our own have been ceaselessly employed in devising means and perfecting plans for defrauding our revenues and evading our customs laws. There is scarcely any kind or description of merchandise subject to *ad valorem* duty, imported into this country from beyond the seas, but has been or is being undervalued, more or less."¹

The practice of undervaluing has been increasing, especially since the repeal of the moiety Act in 1874, by which the government has since withheld the power really to punish fraud when discovered. The custom-house records at our principal ports show numberless instances where invoice values have been advanced by local appraisers ten, twenty, thirty per cent, in order to reach the market value of the goods assessed, and such advances have been sustained by reappraising boards when appeals have been taken. An undervaluation of two hundred per cent, or even one-tenth of that amount, presupposes fraud, and often the circumstances attending slighter undervaluations are such as to convince the custom-house officers of the fraudulent intent of the importer. By the law repealing the moiety Act, it is practically out of the question to forfeit the goods, impose a fine, or punish the guilty parties, for where the fraud is proved, in order to recover and secure the punishment of the offenders, the fact must be established as a separate proposition, not only that the act or omission was intentional, but that it was done or omitted with intent to defraud the revenue, which ordinarily is rendered almost

¹ Mr. Tichenor, special agent of the Treas. Department, Tariff Commission, p. 2469.

impossible by the inability of the officers of the government to seize or to gain access to the offender's books and papers. If it is proved that a man of sound mind has violated any other law beside this, it is presumed that he did so with the intention of violating it. Under this statute, though the evidence be conclusive of the importer's disregard or violation of the law for the purpose of gain, the government must prove that he did so with intent to defraud the revenue, which involves the necessity of proving that he had a full knowledge of the law, a requirement which can rarely be fulfilled.¹

Congress, when moved by the unwise administration of the moiety law of 1863, went too far in shielding wrong-doers, and they are now vigorously flourishing the painful evidence of the weakness of our government to enforce its laws. In view of the recent history of the administration of the revenue laws, the remarks of a committee of Congress in 1872 are not out of place here. "If, in spite of all the vigilance and fidelity that can be secured in the custom-house, frauds are perpetrated, other agents of the government should be stimulated to ferret them out and expose them, and if they do not always uncover their heads while investigating such alleged frauds, as it is complained some of the special agents of the treasury do not, it is probably better to tolerate even that outrage upon good manners rather than allow the frauds to go on unprevented."²

The most general mode of undervaluing is effected by consigning foreign goods to agents in this country. By resorting to this method, the avenue of information relating to the market value of such goods in the country of production is closed. It is the practice of many manufacturers and ship-

¹ Tariff Commission, p. 2469.

² Senate Report, No. 227, 42 Cong., second session.

pers thus consigning their goods, to make them of such a width or style from those in the home market as to render identification for valuation not easy. For a long period extensive importers have been unable in a regular way to purchase abroad many of the most important articles of merchandise made there, and have been obliged to buy them, to be delivered through commission agents in this country, at the dollar price, duty paid. This mode is becoming more and more general, and its disastrous effects both on the revenue and the legitimate importing trade are becoming more marked every year. There are in New York, especially, numerous commission agents, who, in order to secure business, advise and urge foreign manufacturers to undervalue their consignments to them. In a large number of cases the goods are "declared for duty," at and below the cost of manufacture. Not long ago, a foreign manufacturer confessed that he had undervalued, for four years, consignments of silk ribbons to a company of commission agents at New York, on an average of twenty per cent. Not accounting to him for any profits, he failed, and afterward committed suicide. The commission agents have flourished mightily.

These frauds have been practiced more easily by sending all the goods of a particular class to a single port, where they were appraised by one person. Vast lines of goods have been entered at the port of New York only, and have been examined, appraised, and passed by a particular examiner, who, if incompetent, careless, unfaithful, or corrupt, could injure the revenue and legitimate trade beyond measure without detection.¹

¹ This practice of undervaluing has become so universal that even the shopkeepers of continental Europe voluntarily tender American buyers of

The practice of undervaluing and fictitious invoicing has prevailed to a much greater extent on the continent of Europe than in Great Britain or Ireland. One reason given for the varying practice is the existence of a higher business code in Great Britain than in European countries. A better reason probably is that the declarations to consular invoices in Great Britain are made under oath before an officer regularly authorized to administer it, and "forging is punishable and is punished as a crime under the English law, while on the continent such declarations are merely made before one consular officer, and are regarded as perfunctory proceedings without solemnity, and carrying no legal nor moral responsibility." A deeper reason might be found in the moral sentiment of the English than of the Latins, the former, in their religious education, having been taught to regard oaths, while the latter have been taught to consider them lightly because they are the requirement of a secular power.

Turning now to frauds in particular kinds of goods, we may first mention silk fabrics. Those imported have been generally made especially for the American market, and have varied to such an extent in width and other respects as to prevent their identification with goods of the same classes made for the home and European markets, and as they were not sold at all, nor any samples were given for quotations, and all were consigned to or through their agents in this country, the avenues to a knowledge of their value in Europe were effectually closed. The Swiss silks were undervalued "at

small and large articles invoices specially made for the customers. The European "manufacturers and others of fair reputation in their communities" defend themselves on the ground that our tariff is so "wicked, unfriendly, and tyrannical, that it is their duty to evade it."

least twenty per cent, and French silks from ten to thirty per cent, and this was necessary to enable them to compete with American-made goods."

In 1883 and previously, many wools were invoiced below six pence per pound to escape paying only the lowest duty prescribed by law. The mode of evading the tariff on wool was easy. An American buyer might offer a dealer, or commission merchant at Liverpool, or elsewhere, five and seven-eighths pence per pound, excluding all charges and commissions, and the transaction was ostensibly made on that basis; but in reality, if the wool were worth six and a half pence, the charges and commissions would be swelled so that the seller would actually realize his six and a half pence per pound, and the importer, entering the wool at five and seven-eighths pence, would pay only three cents per pound duty. A special agent of the treasury said that he had been astonished to find so large a proportion of wool invoiced at five and seven-eighths pence per pound, and to observe such generous charges for cartage, baling, exchange, and the brokerage and commissions charged as high as five per cent, when the usual rate was only two per cent. To make the low price more deceptive, the invoices often would be prepared ostensibly at points far inland. Wool, for example, grown in the Province of Georgia, Asiatic Russia, would be sold at Marseilles, France, the agreement stating that the invoices should be furnished and certified at such points as Tiflis, or Poti, in the country of production, at prices low enough to secure its admission into the United States on payment of the lowest rate of duty.

In undervaluing, the importer has had two objects; one was to make the aggregate valuation, on which he must pay, as low as possible, and, also, as just mentioned with respect to

wool, to reduce the price sufficiently to render the goods accessible at a very low rate of duty. For example, if certain goods were worth less than twenty cents a square yard in value one rate was paid, but if worth more, the rate was fifteen per cent higher. If one merchant could succeed in keeping his goods invoiced below that line, and his competitor could not, the former would have a great advantage. A practice has grown up among those who go to Europe to buy illustrating another phase of these efforts to invoice within certain rates in order to escape higher duties. The buyer will say to the foreign manufacturer, "I want to buy a line of cashmeres, for example, and shall want four thousand or five thousand pieces in all. I want, say, five hundred pieces of the lower grades, and so on up into the finer goods. What are your prices?" The negotiation is conducted on the basis of the sale of the whole line, and if made, it is understood that all goods below a certain amount must be at a price which will permit their entry into the United States at the low rate of duty. The sale is not based on their value, and the manufacturer repays himself on the finer qualities sold. If the purchaser went to buy the low grades on their merits, he could not import them at the low rate of duty. The consequence is that the man who goes abroad to buy only the lower lines of goods, and buys them on their intrinsic value, is compelled to pay the higher rate of duty, and he who resorts to the other method of buying the goods succeeds in getting them at the lower rate of duty.¹

These frauds are, doubtless, effected in many cases through the assistance of some of the officials at the custom-house. Detection is difficult. Foreigners now control the business, either

¹ Tariff Commission, p. 2430.

the agents of foreign houses, or others, who make their fortunes, and then return to the Old World to enjoy them. They are not interested in our country, nor its institutions, nor its prosperity. They regard themselves as adventurers, who are stopping here only for a short season. Our country, to them, is like the sea to a fisherman. Living here temporarily with these sentiments, what reason have we for supposing they will not make all they can, or that they will serve us better and at lower prices than those of our own kin? If they undervalue and cheat the government in order to enhance their gains,¹ will they not, for the same reason, overvalue when selling to the consumer? Will they be animated by any higher principle when dealing with Americans than with the American government?

Such is the latest thing seen in the administration of the

¹In 1863, Mr. Jordan, solicitor of the treasury, investigated into the frauds committed against the government by the officers of the custom-house in New York, and in his report, he said: "As to the accessibility of many of those employed in the custom-house to corrupt influences, the evidence is conclusive and startling. . . . The statements herewith submitted seem to justify the belief that nearly the entire body of subordinate officers, in and about the custom-house are, in one way or another, in the habitual receipt of emoluments from importers or their agents. One lawyer declares that he has paid to a single record clerk the sum of one thousand eight hundred dollars within a period of fifteen months. Entries from the books of an importing house, doing but a moderate business, are discovered, showing that about a thousand dollars had been paid by it to an examiner within a period of a year. It is shown that a bond clerk, with a salary of one thousand dollars per annum, enters upon a term of eight years with nothing, and leaves it with a fortune of thirty thousand dollars. A majority of the officials questioned on the subject by me, admit that they receive such emoluments to a greater or less amount." House Mis. Doc., No. 18, 37 Cong., third session.

customs-revenue law. If now the historical kaleidoscope be turned a little backward, something else may be seen worthy of notice. Ever since the enacting of a tariff law the remission of duties, for one reason or another, has occurred. Sometimes this has been done by the secretary of the treasury, by authority granted to him under general laws, and sometimes Congress has exercised this authority in special cases. After the great fire at Portland, Maine, in 1866, a bill was passed remitting duties on all materials except lumber that should be used for a year in rebuilding the city, and a similar Act was passed to aid the sufferers of Chicago after the fire of 1871. The constitution declares that "no preference shall be given by any regulation of commerce or revenue to the parts of one State over those of another;" and also, that "all duties, imports, and excises shall be uniform throughout the United States." When the bills for the relief of Portland and Chicago were passed, the calamities were unparalleled in our country, and the relief desired was granted without a thought of the constitutional principles involved. When the Boston fire occurred in November, 1872, a similar bill was introduced into the Senate, which, however, was declared to be unconstitutional.

"If this bill be constitutional," remarked Senator Carpenter, in his report, "then a similar bill in relation to any or all other imported articles would also be constitutional. If building-materials, or other articles imported into the United States at any port, to be used in Boston, may be free of duty, then the provisions of the bill might be extended to articles to be used in the State of Massachusetts, or all New England. And a law which should provide that all hides imported into the United States, and manufactured into leather in New England,

and all wool imported into the United States, and manufactured into yarn or cloth in New England, should be exempted from duties otherwise imposed, would be constitutional. The fact that a calamity by fire cannot be distinguished from one produced by a flood, a hurricane, or earthquake, or any other visitation outside of the ordinary course of things, and the fact that if Congress attempts to insure against one, it must against all, not only justifies, but calls for a reconsideration of the subject, and makes it necessary to determine the principles to be applied in all such cases. If, in view of all these considerations, Congress shall pass this bill, it is not perceived by your committee upon what ground Congress should refuse relief to individual sufferers. How many buildings must be destroyed to justify the interference of Congress? Must there be a thousand, or five hundred, or one hundred, or fifty, or five? Where is the line to be drawn? Must not Congress become the great almoner of the nation—a great insurance company for forty millions of people?" Senators Edmunds and Wright presented a minority report, but Senator Carpenter's reasoning was unanswerable and convincing.

Whoever shall read this account of the administration of the customs-revenue law, may perhaps ask, Ought not a system which is the cause of so much wrong-doing to be smitten down? This question may be answered by asking another. If government is essential for man, taxation is necessary to support government; and is a better system practicable? We have seen how vigorous was the denunciation against the income tax, and also against other features of the internal revenue system. We have caught glimpses of the enormous frauds perpetrated in collecting the taxes on whiskey and tobacco, which are universally regarded as the best objects of taxation. And

the proof is abundant that the State and municipal systems of taxation are the cause of more bitter complainings and corruption than attend the administration of the customs-revenue law. Mr. Wells's investigations into the system of taxation in New York, and those subsequently made by others in various places, show that thousands of millions of wealth, and rights to wealth, which are taxable by law escape taxation. Bad, therefore, as the customs-revenue law is, the State and municipal systems cause far worse public and personal degradation. The story of the inequality and iniquity of local taxation has not been half told. Those having the most wealth, and especially in the large cities, and who ought to pay the heaviest taxes, are the most watchful, and too often escape with paying only a small portion of what they would pay if faithfully complying with the law. Whoever supposes that the moral and economic wrongs issuing from the customs-revenue law, regarded in their entirety, are worse than those issuing from any other tax system, will, if candid and intelligent, correct that supposition by studying the methods now prevailing of getting money to sustain the State and municipal governments of our Union.

CHAPTER IX.

GOVERNMENT ACCOUNTING.

THE familiar complaint that "too much red tape" is used in the treasury department at Washington is not born of reason. Elaborate processes for receiving and paying money are employed to guard against fraud, and their effectiveness has fully justified their employment.

The only way of getting money legally from the government is by Congressional appropriation. When appropriations are thus made, they are entered in the books of the United-States treasurer. The secretary of the treasury then issues appropriation warrants directed to the heads of the other departments, informing them of the action of Congress. A warrant, for example, is issued to the secretary of war, informing him that Congress has appropriated a specific sum of money to pay the army, for quartermaster's stores, subsistence supplies, etc., and which he may draw for these purposes. This appropriation warrant, before reaching the secretary of war, is sent to the first comptroller, by whom it is countersigned, and the appropriations are entered in books kept in his office; then to the register of the treasury, where the appropriations are taken up and the warrant is registered; and after that to the second comptroller and the proper auditor of the war department. Then the warrant reaches the war department and goes to the different bureaus. Each bureau in

turn makes entry of the appropriations granted to it, for each must afterward examine these entries and be limited by them when requisitions are made for money.

When money is wanted to pay a disbursing officer, the secretary of war makes a requisition over his signature on the secretary of the treasury for the amount payable to such officer. The requisition goes to the second comptroller, who signs it; afterward to the proper auditor of the war department, who does likewise; and then it passes to the warrant office of the treasury department, where it is filed. At this office a warrant is issued, signed by the secretary of the treasury, which is sent to the first comptroller, who records and countersigns it, and sends it to the register, by whom it is entered and registered and sent to the United-States treasurer, who, in turn, issues a draft for the required amount, payable to the officer in whose favor the original requisition was drawn.

With respect to a claim for a service, stores, supplies, etc., it is filed in the bureau of the war department, which received the property, or for which the service was rendered. In this place the claim is investigated and reported to the auditor on whose books the class of appropriations for services or property of this nature is carried. The auditor examines it, and also the evidence accompanying it, and if found to be correct and a just demand against the government, the claim, with a statement of the account and evidence, is sent to the comptroller, in whose office it is to be reviewed and passed. If the comptroller approves the finding of the auditor and bureau officer, he signs the statement of account made by the auditor, and certifies that it is correct, returns it to the auditor, by whom it is sent to the secretary of war for his requisition for payment. After entering it, the secretary of war makes his

requisition on the secretary of the treasury in the same manner as above described, except that the requisition is in favor of the claimant.¹

If a claim has not gone through the regular order, or has been delayed for some reason, and an application is made by the claimant, or his attorney, for settlement, the auditor reports thereon, and the comptroller decides it, and both sign and send to the secretary of war a settlement certificate, calling for a requisition to pay the amount allowed by them. This certificate is referred to the proper bureau of the war department for a report on the claim, and sometimes an adverse decision is rendered. Then further action is necessary, but the precise boundary of authority between the several departments and the treasury department in such a case was not clearly settled until a very recent period.

In the beginning it was maintained that the President, having authority "to take care that the laws be faithfully executed," might control the action of the heads of the departments and other officers on questions of law and fact concerning claims. Such authority, it was decided at an early day, he did not possess.² But the heads of the departments have authority "to interfere with the action of the accounting officers [who are the auditors and comptrollers of the treasury department] upon accounts arising within their respective departments."³ Although the boundary of authority between the departments was undefined for many

¹ See House Report, No. 87, 42 Cong., third session.

² "The President had nothing to do with the settlement of public accounts." Attorney-general Wirt in Anderson's case, 1 Opinions of Attorneys-general, p. 678.

³ 5 Ibid., p. 630.

years, no serious conflict arose until the administration of Mr. Stanton as secretary of war. In September, 1866, the attorney-general gave an opinion "that he had authority to withhold his signature from a requisition for an amount which he believed to be not properly due, though certified to by the accounting officers of the treasury department." Mr. Stanton complained that war claims, or claims for army supplies allowed by the quartermaster-general, were "largely increased by the accounting officers of the treasury, and sums allowed which, in the judgment of the chief of the quartermaster's department, were not honest nor just." Fortified by the attorney's-general opinion, Mr. Stanton declined to make a requisition for more than appeared to be due "by the report of the quartermaster-general, or the facts in the case," leaving the claimant to pursue his remedy for the residue before the court of claims or Congress.¹

Thus the issue respecting the authority of the accounting officers of the treasury department, and that of the secretary of war, to determine claims was sharply raised, the former contending that their decisions were conclusive, the latter that they were not, "only to the extent that no more could be paid than was allowed by the accounting officers." Congress finally settled the conflict by declaring that the heads of the departments had not authority to change or modify the balances certified to them by the commissioner of customs, or the comptrollers of the treasury; on the other hand, these must be considered as final and conclusive on the executive branch of the government, and be subject to revision only by Congress, or the proper courts.² The law contained a proviso that

¹ Ex. Doc., No. 46, 40 Cong., second session.

² Act, March 30, 1868, 40 Cong., second session.

the head of the proper department, before signing a warrant for any balance, might submit facts which, in his judgment, affected the correctness of the balance, but the decision of the comptroller thereon in all cases should be final and conclusive. Congress soon after empowered the heads of departments to send any controverted claim exceeding three thousand dollars to the Court of Claims for adjudication.¹

The war department continued restive. The secretary believed that the accounting officers were not thoroughly sifting fraudulent from honest claims, and, distinguishing between accounts and claims, he tried to maintain absolute authority in settling the former. The term account was applied to papers and records which described the responsibility for moneys and property entrusted to an individual, and claim to a written demand by an individual or community for services rendered, or supplies furnished. He was not successful in maintaining the distinction. The secretary of war next tried to have all disputed claims, without regard to the amount, sent to the Court of Claims, but Congress took no further action. Authority to determine claims must be fixed, and fitly belongs to the accounting officers of the treasury department; if not properly exercised, the remedy obviously is not to transfer their authority to the war or any other department, but to transfer them beyond the pale of government employment.

Another conflict of a graver kind has existed from an early period between the legislative and executive departments of the government, concerning expenditures. Congress endeavored to restrict the public expenditures by the departments, and they, on the other hand, to retain the largest

¹ Act, June 25, 1868, 40 Cong., second session, sec. 7.

control possible over them. The checks have been generally applied by Congress in the appropriation laws, though sometimes in separate ones. In 1795, Congress enacted that the unexpended balances should be carried to the surplus fund, and, in 1820, reminded the departments of their duty by re-enacting the law. In one way and another, however, these laws were evaded, and some exceptions were made of transfers by the President.¹ From the time of the first enactment to the present, said a Committee on Appropriations in 1868, a continual struggle had been going on by the several executive departments to escape control by Congress, while that body had as constantly endeavored to hold the executive to specific expenditures under specific appropriations. This struggle might be traced on the statute book in eleven enactments, beginning in 1817, and continuing until 1860, Congress either limiting, regulating, or extending the power of the President to transfer money from one object of appropriation to another, as the influence of the executive waxed or waned.²

In 1870, Congress enacted that all balances of appropriations contained in the annual appropriation bills, and made specifically for the service of any fiscal year, and remaining unexpended at the end of it, could be applied only to the payment of expenses properly incurred during that period, and the balances not thus needed must be carried to the surplus fund.³ This law, however, did not touch permanent appropriations. It was also enacted at the same time, that all balances of appropriations, against which no requisitions had

¹ See former vol., Book 1, chap. x., and p. 606.

² House Report on Custody and Expenditure of Public Moneys, No. 14, 40 Cong., second session.

³ July 12, 41 Cong., second session, secs. 5, 6, 7.

been drawn for two years, should be reported by the secretary of the treasury to the auditor of the treasury, and that he should examine the books of his office, and certify to the secretary whether the balances would be required to settle accounts then pending, and all that would not be were to go to the surplus fund, regardless of the wish of the head of the department for which they had been made. Moreover, no department could expend more money during the fiscal year than Congress had appropriated for it, or involve the government in a contract for the future payment of money in excess of the appropriation therefor.¹

This was wise legislation, surely; but had not Congress long before declared that unexpended balances should be carried to the surplus fund, thus putting them beyond the reach of the departments, unless they were re-appropriated? Yet this very thing was quite generally done, and even when it was not, the departments for many years carried over the unexpended balances of appropriations from one year to another to the credit of their particular funds or appropriations.² Hence, Congress might appropriate an adequate sum for transportation, yet a much larger sum might be expended by adding thereto the balance of an old appropriation. In consequence of the existence of these unexpended balances, it was not easy for Congress to decide how much to appropriate from year to year. The balance of unexpended appropriations on the 30th of June, 1869, was \$102,390,159, and of this sum \$41,548,477 were for the war department, and \$26,532,453 for the interior department, or more than two years' appropriations for each

¹ Wood's case, 1 U. S. First Comptroller's Decisions, p. 1.

² See report of Secretary Thompson on expenditures in the navy department, Ex. Doc., No. 3, 45 Cong., first session.

of them.¹ Indeed, their balances were nearly as large as the entire appropriations for the fiscal year, thus giving the departments two years' supplies for one. When the New-York post-office was begun, the money was drawn from an appropriation ten years old. The law of 1870, it was supposed, would remedy these evils, but by making the smallest settlement under an appropriation, it could be kept alive two years longer. Thus, the law proved ineffective. Accordingly, in 1874, Congress again attempted to correct the evil by enacting "that annually, after the first day of July, the secretary of the treasury should cause all unexpended balances of appropriations remaining on the books of the treasury for two fiscal years to be carried to the surplus fund and covered into the treasury, except permanent specific appropriations, and those for rivers and harbors, lighthouses, fortifications, public buildings, pay of the navy and marine corps." This law no department has yet been able to surmount or tear down.

Another practice, and far worse than the one just described, was the transferring of appropriations from one head of

¹The following details, which are taken from the statement of the secretary of the treasury on Unexpended Balances to the speaker of the House, February 21, 1870, may render the text clearer:—

HEADS OF APPROPRIATIONS.	Balances on June 30, 1869.	Appropriations for fiscal year ending June 30, 1870.
War	\$41,548,477	\$34,768,705
War, civil, (public buildings and grounds)	478,394	7,180
Navy	16,007,154	15,807,431
Interior, (pensions and Indians)	26,532,453	19,601,400
Interior, civil, (lands, courts,) etc.	3,576,954	4,331,972
Diplomatic, (State department)	1,063,460	1,111,834
Customs, (treasury department)	2,364,401	8,548,858
Treasury department and miscellaneous	9,554,551	18,127,124
Public debt, (treasury department)	131,506	
Internal revenue, (treasury department)	1,132,804	8,599,400
	\$102,390,154	\$110,903,904

expenditure to another. The constitution provides that no money shall be drawn from the treasury but in consequence of appropriations made by law. This provision has been evaded from the early days of the government until recently, under various pretexts. Elsewhere we have traced the history of these transfers.¹ In 1868 Congress repealed all laws of this nature, and enacted that no money appropriated thereafter should be diverted from its specified purpose. Nevertheless, the very next year, Mr. Robeson, the secretary of the navy, without making his intention known to Congress or the country, began to rebuild the navy, relying on the unexpended balances which had accumulated in the navy department. He forgot that Congress had legislated on the subject; having discovered his blunder he abandoned his ambitious and, doubtless, well-meant designs. Had no action been taken by Congress it is highly probable that Dolphins would have been sporting in many a sea, to the delight of our worthy naval officers, whose pride in their country can in no way be raised by commanding vessels so poorly representing our national aspirations.

In 1872 Congress enacted a law concerning the proceeds of the sales of public property, worth mentioning in this place. Before that time, when property was sold by a department, no regulation existed respecting the proceeds. Enormous sales were made by the war and navy departments after the close of the war, of property which had become useless or too expensive to keep. Large sums, also, were realized from captured and abandoned property. They came into possession of very large funds, disengaged from any use whatever, which could be expended as the departments pleased. Congress

¹ See former vol., pp. 190, 533.

enacted that all proceeds of sales of old material, condemned stores, and other public property, with a few exceptions, should be covered into the treasury.¹

One or two more matters require to be briefly noticed. Though the treasury department is effectively organized for examining the ordinary demands on the government, it can not well determine the justness of a claim long due or presented on *ex parte* evidence, for the accounting officers possess no means to call witnesses or cross-examine them, or to test the sufficiency of their testimony or its credibility. To prevent dangerous claimants from imposing on the government, the heads of departments have been authorized to transmit to the Court of Claims "any claim where the decision will affect a class of cases or furnish a precedent for the future action of any executive department." The law also provides that the accounting officers shall continue to receive, examine, and consider the justice and validity of claims under appropriations, the balances of which have been exhausted or carried to the surplus fund, that may be brought before Congress within a limited period. The amount due to each claimant is to be reported at the beginning of each session to the speaker of the House, who is required to lay the report before Congress for consideration.

The last topic to be noticed is an investigation into the system of bookkeeping in the treasury department.² This sprang from the belief that the work was improperly done, and that an investigation would reveal great crookedness. As warrants have always been required for money paid or received by the

¹ Ex. Doc., No. 282, 40 Cong., second session.

² Senate Report on Accounts of Treasury Department, No. 371, 44 Cong., first session.

treasury, it was, of course, easy to ascertain the amount of these. When a warrant for receiving money has been issued, signed by the comptroller and register of the treasury and properly entered in the books of their offices, and is receipted by the treasurer of the United States, the amount is charged in his general account, and is technically known as "covered money," and cannot be drawn from the treasury, except by an appropriation. Warrants covering money into the treasury are drawn as soon as possible after making deposits.

The amount deposited in the treasury and covered by warrants from March 4, 1789, to June 30, 1875,	
was	\$14,973,305,670.59
The amount deposited but not covered at that time was	
	1,072,002.73
	\$14,974,377,673.32
The amount paid on warrants was	\$14,797,839,742.74
The amount deposited with the States	28,101,644.91
Unavailable	2,661,866.53
Balance on hand in the several offices and depository	
banks or in transit	145,774,419.14
	\$14,974,377,673.32

An examination of the books had been in progress for six years prior to the investigation, which, though revealing extraordinary discrepancies, also showed that they were the consequences of imperfect bookkeeping.¹ "Indeed," said Secretary Bristow, in a letter to the investigating committee, "such an accountability for the moneys received and disbursed has always been so enforced by this department that

¹ N. Y. Com. Bulletin, June 1, 1876; N. Y. Times, January 19 and 23, 1876.

every cent of money received by the government since its organization is either on hand or properly accounted for."

The amount that had been covered into the treasury derived from loans and treasury-notes from the organization of the government to June 30, 1875, was \$8,441,763,203.84, and the expenditures for the same period for redeeming the loans and treasury-notes were \$6,325,583,753.34. The outstanding principal, therefore, was \$2,116,179,450.50. This sum, however, exceeded the actual amount \$116,105,081.45, and when the discrepancy was first discovered in the treasury department, Mr. Bayley, who was examining the books, was astounded. The explanation was soon found. Stocks amounting to the above sum had been issued to pay various debts and claims, the revolutionary debt, the Mississippi and Louisiana purchases, and other obligations, and on maturity they had been paid from the general funds in the treasury. This showed an expenditure for which there was no corresponding receipt, as no money had ever come into the treasury in these transactions.

Two items in the above table need explanation: the amount deposited with the States, and the unavailable fund. The latter fund had its origin in losses not caused by the fault of the treasury, but by robbery, accident, defalcation, misconduct of depositaries and the like; yet the treasurer was responsible for these sums, and was charged therefor. In ordinary book-keeping such deficits would be entered in the profit and loss account by crediting cash and debiting the defaulter. The treasurer could not do this, so an account called "unavailable" was created, which was charged with the amounts, and the treasurer was credited in his general account. This practice though long continued has not been authorized by law. In

order to relieve the treasurer, Congress adopted the safe expedient of reimbursing him in specific cases. Several ineffectual attempts have been made to pass a bill relieving him from liability for losses not occasioned by his own fault, and for extinguishing the unavailable account above mentioned.¹ It nevertheless appears on the treasurer's books, and amounts nearly to thirty millions. The nature of one item of \$28,101,644 is well known, for it is the deposit made by the treasury department with the States by authority of the law of 1836.²

¹ U. S. Treasurer's Report, 1876.

² For organization and duties of the accounting offices in the treasury department, see Appendix, 1 U. S. First Comptroller's Decisions, 2 ed.; see, also, Keyser's case, 4 *Ibid.*, p. 261.

CHAPTER X.

APPROPRIATIONS AND EXPENDITURES.

1865—1885.

If progress has been slow in improving the mode of appropriating public money, nearly every step has been forward. In 1790, all the appropriations were included in one bill, which was of a very general nature. With a considerate regard for economy and clear knowledge, the appropriations have been specified more and more minutely, and classified. When the items in a bill became very numerous, a portion of them was put in another bill, and thus the number has increased to a dozen. As soon as possible after their passage, the secretary of the Senate and the clerk of the House make a complete record of the appropriations and of the new offices created, which is sent to the secretary of the treasury.

The bills are framed on information furnished by the secretary of the treasury. He requests the departments to send estimates to him of expenditures for the next fiscal year, those for the treasury department are added, and the "letter" containing all of them is ready by the opening of the session. The Appropriation Committee are given a month to prepare and report the bills, but the law is rarely observed. Of late the practice has been growing for the departments to send supplemental estimates, which delays action. The committee cannot do much until the wants of the departments are fully

known, and they are without excuse for neglecting to make careful and complete estimates in the beginning.

The appropriation bills, when reported, contain the information on which the recommendations of the committee are founded. This consists of statements from different officers in the departments explaining for what purposes money is desired, and the reasons for the amount asked. The action of the House on the bills is variable. If considered, this is done in the committee of the whole, but very often the bills are not reported until late in the session, when no time remains for discussion, and consequently they are passed without debate. In the Senate, more time is bestowed on them. The Appropriation Committee usually reduce the estimates of the departments, but many are restored by the Senate. The bills then go to a committee of conference, and an agreement is effected by retaining the increase in some cases and reducing it in others. Every bill has a different history in some respects, and what we have written, it must be remembered, is merely the general course of these measures.

The newest bill of the twelve is called the sundry civil, and was originated in 1862. It is of a miscellaneous composition, containing items not mentioned in other bills—a kind of *omnium gatherum*, or record of human forgetfulness. The appropriations for public buildings, which have been very large for several years, are put into this bill; if, however, an appropriation of this kind goes through both houses solitary and unharmed, the reason is that friends not far away expect to go along soon, either alone or in company.

The deficiency bill is one of the oldest, and requires brief explanation. Although no money can be drawn from the treasury without an appropriation, nothing prevents a person

from doing things for the government with the expectation of receiving compensation. So services of one kind and another are rendered every year, and money is regularly appropriated to pay for them. One of the tricks occasionally employed by political parties to win the favorable regard of the people is to make the appropriations in eleven of the bills as small as possible, and cover up the deficit thus incurred in the deficiency bill of the following year. This is like the method of some corporations that make larger dividends than have been earned, borrow the money to pay them, and charge it to the "construction account." The plan was never patented by the inventor, consequently all parties have used it whenever they imagined this cheap cunning would yield votes. The last Napoleonic usurper in France covered up \$350,000,000, expended in fifteen years, by a mysterious system of book-keeping; in our country political parties are too watchful of each other to permit a game of that kind to be long played without exposure.

In reporting the deficiency bill for 1875, the committee¹ remarked that under the Acts then in effective operation prohibiting the use of unexpended balances of appropriations unless specifically rendered available, and requiring that expenditures should only be made pursuant to appropriations made therefor, the requisitions for deficiency appropriations were decreasing from year to year. "This, aided by the rigid scrutiny of all estimates, and exhaustive study to reduce them, has caused a more careful method of making the same on the part of the departments, resulting in a much more exact and economical use of the appropriations when made." The deficiency appropriations did, indeed, shrink until 1877, when

¹ No. 270, 43 Cong., second session.

they were only \$834,695, but since that time they have been increasing.

The appropriations are divided into three classes, annual, permanent annual, and permanent specific. The first class of appropriations are for the current ordinary expenditures of the government; the chief item in the second class is for interest on the public debt; the third class are for improving rivers and harbors, fortifications, buildings, and the like, and which remain appropriated until expended. Appropriations of each class may be definite or indefinite; in other words, a definite fixed amount may be appropriated for anything, or an indefinite amount. All the permanent annual appropriations are indefinite, but Congress could make them definite by specifying fixed sums for all the objects for the service of each fiscal year. The only difference between a definite annual and a definite permanent annual appropriation is, that the former is made by a law passed annually "for the service of" one designated fiscal year, and the latter by a law operating until repealed for the service of each subsequent year without limit or designation.¹

At the close of the Mexican war in 1847, more than one-half of the national expenditures belonged to the second class of appropriations. The number have been reduced, but the departments have sought to maintain them in order to simplify and reduce the estimates. Many abuses have their origin in permanent annual appropriations. One illustration may be given. During the war, when authorizing a great loan, Congress enacted that a fixed percentage should be used to pay the expense of negotiating and printing the bonds. In 1872 the

¹ See Com. of Secretary Sherman to Speaker of the House, Dec. 14, 1877, and further documents on the same subject, 1 U. S. First Comptroller's Decisions, chap. 14, 2 ed.

Committee of Ways and Means recommended a bill, which passed without debate, making a permanent appropriation of one per cent of all notes and bonds and fractional currency issued and re-issued in any year as the expense of the national loan. In the year 1874 paper amounting to \$500,000,000 was printed at the treasury department. Thus the authority existed for expending \$5,000,000 without legislative action. From these appropriations arose the bureau of engraving and printing, with twelve hundred employees, whose salaries were regulated solely by the secretary of the treasury. The salaries of five hundred clerks and employees in four of the offices of the treasury department were regulated in like manner and paid from this appropriation. In 1874 this permanent annual appropriation was swept away, and the number and compensation of persons employed to manage the national loan, print the bonds, etc., were fixed in the annual legislative, executive and judicial appropriation bill.

If Congress did wisely in subjecting those expenditures to annual scrutiny, why has not a more intelligent regard been shown in the expenditure for collecting duties on imports? Prior to 1849 the expense of collecting them was paid from the gross receipts, the balance going into the treasury. By the Act of that year the gross receipts were paid into the treasury, and estimates were submitted to Congress for the expense of collecting them. In June, 1858, a backward step was taken. A permanent semi-annual appropriation was made, and collectors were authorized to apply certain customs fees toward the cost of collection. The amount of the appropriation has been increased from time to time, as the receipts became greater and more difficult to collect. In 1882 Congress required the secretary of the treasury to include in his annual estimate of

expenditures a statement of the number and compensation of officials, who, in his judgment, were needed to collect the revenue, and also an estimate of the amount required for the contingent expenses of the customs service. The evident intention of Congress in obtaining such data was to make specific appropriations for collecting the revenue from customs in each district, and to repeal the existing law providing for a permanent annual appropriation for that purpose. The secretary transmitted the information¹ within the time prescribed. The aggregate amount of money required for the salaries of collectors and other officers was \$6,639,650. At that time the collectors were compensated, some by salaries only, others by salaries, commissions, and fees, and a third class by commissions and fees. In some cases the compensation was too small to insure the constant service of competent men; in others, the salaries and emoluments were excessive for the service rendered. In many districts no duties had been collected for years; in others, the duties collected were not enough to pay the cost of collection.² In those districts the duties of the officers consisted chiefly in issuing documents to vessels, collecting the hospital tax and fees, and in making up the monthly and quarterly returns to the treasury department. Nothing could exceed the simplicity of many of these returns,

¹ Ex. Doc., No. 73, 47 Cong., second session.

² Secretary Folger said, in his annual report for 1883: "There are twenty-two ports of entry at which not a dollar of duties has been collected for years, at different times. There are thirty-two ports of entry in which the year's collections from all sources have not equalled the year's expenses. . . . The custom-houses in these districts are, however, kept up, with all the formalities of activity, with deputies, inspectors, and clerks, to make official returns to the accounting officers of the treasury and the bureau of statistics."

consisting, as they did, of the following words: "no transactions." When custom-house fees were first exacted by the law of March, 1799, it was thought that the customs service would be self-sustaining, but it has never been. In 1883 the amount of fees collected at all the ports was about \$600,000, while the cost of collecting the revenue was more than \$6,000,000. The fees are often difficult to collect, are paid by ship-owners and importers unwillingly, and greatly increase the clerical work of the service. "The advantage," said Secretary Folger, in his report in 1883, "of fixed salaries is obvious. An objectionable feature of the present system is the temptation at small ports to obtain additional compensation for storage under the bonded-warehouse system. Then, too, is the uncertainty of the amount of compensation." In the June Act of 1874 Congress partly remedied this defect in the system by giving fixed salaries to the officers in the leading ports, but stopped midway, leaving the compensation of others unchanged. The discretion of collectors and other custom-house officers, however, has been narrowed by regulating the number and salaries of employees.

Legislative reform has certainly moved very slowly in this direction. The number of permanent annual appropriations have been reduced, while others have been so clearly defined and limited that no loss is likely to arise.¹ A similar degree of thoughtfulness has been shown by Congress in paring down the contingent funds of the departments to a small figure. Congressional action, it must be admitted, has been slow in

¹ "Annual appropriations for specific purposes, and for a specific time, are the only guards for expenditure. If, then, we have extravagance, it can only be the extravagance of Congress, and not of executive officers."—Mr. Sherman, in Senate speech, May 23, 1870.

these matters, but no one can deny that in ordinary appropriations greater intelligence and scrutiny are shown in making them than were formerly, and more and clearer information is given concerning them. From the reports of the committees and those printed by the departments, the most minute information can easily be obtained pertaining to the receipts and expenditures of the government.¹

How singular, therefore, that with such a wise regard for economy in the ordinary expenditures of government, Congress should too often join an utter disregard for economy in much larger ones! An annual illustration of this kind is the river and harbor bill. By a careful distribution of appropriations enough votes are obtained, save on rare occasions, to pass a bill for appropriating a large sum, from which accrues no corresponding public benefit. The pension arrears Act of 1879 is perhaps the gravest of all the misappropriations of Congress. On the 19th of June, the year before, Mr. Haskell, of Kansas, moved a suspension of the rules, and that the Committee on Invalid Pensions be discharged from the further consideration of a bill to provide that all pensions on account of death or wounds received, or disease contracted, in the military service during the late war, should begin from the date of death or discharge from service, and that the bill be passed with the amendment that no claim agent, or other person, should be entitled to receive any compensation for services in making applications for arrears in pensions. No report of the probable expenditure was made, and the bill passed immediately by a vote of one hundred and sixty-four to sixty-one. The pension agents, who were to receive nothing for making applications, were the most zealous advocates of the bill; for a

¹ See Appendix B.

long period they had labored unceasingly, confident that, if enacted, they would reap fortunes. The amendment was harmless, indeed served them a good purpose, for many now innocently supposed the measure was enacted primarily for the benefit of the soldiers, instead of the pension agents. The House passed the bill with that self-disinterestedness which has marked the conduct of so many members on the passage of river and harbor bills and similar measures, expecting no return save the grateful remembrance of the soldier at the ballot box, yet confidently expecting that the bill would forever sleep in the Senate. On the 16th of January, however, Senator Ingalls pushed the bill through the upper branch. Interrogated concerning the probable expense, he replied, "Somewhere from eighteen to twenty million dollars." Only four senators voted nay ; but having the same opinions and sentiments that animated the House in their action, they counted confidently on the President to kill the bill. Mr. Sherman, who was secretary of the treasury, prepared a calculation of the probable expense, and urged President Hayes to send back a veto, but he concluded that if the two Houses were so unwise as to pass such a thoughtless and wasteful measure, they ought to suffer by the exposure of their ignorance, which would happen by the operation of the law. The sum paid that year for arrears of pensions was \$5,373,000 ; in 1880, \$19,341,025 ; the force in the pension bureau was increased, and the law proved capacious enough the next year, with the ordinary pension expenditures, to absorb \$50,059,279, and in 1882, \$61,345,193, while the estimate for the next year was \$100,000,000. By that time the people were startled, and began to inquire into the nature of the pension arrears bill. Senator Ingalls's modest guess of eighteen or twenty millions

vanished on the very eve of paying the arrears, and the hundreds of millions that have followed since have not filled the chasm of expenditure created by Congress without a serious recorded thought.

Occasionally legislation is injected into an appropriation bill. This usually relates to appropriations, though not always. In 1877, a fierce controversy on this subject raged between the two Houses. The House was Democratic, and desired to reduce the number of the army from twenty-five thousand to seventeen thousand men, the number of regiments to eleven, the pay of the officers, and to reorganize several of the bureaus of the war department. These changes were incorporated in the army appropriation bill. The most objectionable feature of all to the Republican members prescribed that no part of the money appropriated should be used in any State to maintain the political power of the State government. In the Senate, a new bill was reported as a substitute, similar to the army appropriation bill of the previous year. The majority of the House knew that the only chance to accomplish their purpose was to inject the distasteful proposition into an appropriation bill. But the Republicans would not swallow the dose. Several committees of conference of the two Houses were appointed, and neither committee agreeing, the bill failed.

Some excellent legislation has been embodied in appropriation bills. The valuable laws of 1870, 1874, and 1878, relating to unexpended balances, formed sections of the deficiency bills, and possibly could not have been passed as independent measures.

What has been the ratio of expenditure to population at different periods is a more curious than useful inquiry. A somewhat numerous class of writers, it is true, never weary

with presenting statistical averages to show the conduct of society ; but, though often imposing, they possess the smallest moral significance. If our pages were filled with figures showing the growth of population and expenditures by years or decades, they would not contain the faintest gleam concerning the wisdom of those expenditures, or how, or in what manner, they promoted individual or national welfare. They would show that the expenditure *per capita* was larger at one time than another ; but, starting with no standard of a correct expenditure, the comparison would not show whether too much or too little was expended, nor why the variations happened, nor whether they were justified by the results. An inquiry of this kind, therefore, may well be omitted as too unfruitful. To establish a correct standard of expenditure, and show the principal variations, their causes and effects, would require a volume. Not having this space, we must look at the subject from other, if less satisfactory, points of view.

The expenditures may be divided into two kinds ; those incurred for the necessary maintenance of the government in peace and war, and others not bearing the stamp of necessity. With respect to the former, the questions that may be most profitably answered are : What services and materials were required, what methods were adopted to obtain them, what imperfections have existed in these methods, and what progress has been made in removing them ?

The number of persons engaged in government employ has always been a matter of criticism, especially by the party not in power. The criticism is almost as old as the government. Hardly a session of Congress has passed without a repetition of it, and investigations to prove its truth have been frequent. Nothing is more common than for persons unac-

quainted with public business, after visiting the departments, to conclude that the employees have but little to do, and that large numbers could be dismissed without detriment to the service. Moreover, some persons have always maintained that the government ought to employ freely and pay liberally. When the heads of the departments have been asked if they could diminish the number under their control, they have generally given a negative answer. Of course, a much smaller number might transact the public business if the method of doing it were more direct, but such a change would jeopardize the security now existing against fraud and error. Every now and then, a fresh member of Congress, thirsting to distinguish himself, builds up a grand plan for transacting the public business, whereby millions of money and the unmeasured patience of claimants can be saved. The reductions of force in most cases in our national history, except after the wars with Great Britain, Mexico, and the South, were ordered at the beginning of the flood tide of a new administration, either supposing that the reduction was practicable, or to swell the number after a short interval with persons more closely identified with those in power.

The method of appointment has long been an exciting theme of discussion. With no political topic is the general reader more familiar. The selecting of men because they were fit, and the retaining of them for the same reason, has always been a live theme among statesmen, politicians, and the people from the days of Hamilton. At last a service based on fitness has been adopted; time will demonstrate whether the people have virtue enough to sustain it. The chief vice of the old system was not the mode of appointment, but the mode of removal. So long as an employee's tenure of office was in-

secure, whatever might be the degree of the efficiency of his service, his incentive was slight for doing his best, and a true interest and enthusiasm for the public service could hardly be expected. Most of the places require but little skill; no excuse, therefore, could be made for getting, or long retaining, persons incompetent to fill them. The work of the government is like that of a great watch factory, which is so minutely subdivided that a person of very ordinary intelligence can quickly learn to perform well the little part assigned to him. Only here and there in the government, or a watch factory, is a man required possessing superior ability. Hence the getting of men who were competent, for most of the places, or who could easily become so, has always been an easy thing. A great number who have sought for government employ have been unfortunate in business, and knew of no other way to get a living. Those who fail in middle life, or later, and who are unable to continue their business, bitterly know how difficult it is to find another. Their habits are fixed, they are not facile, and employers prefer younger men, who are more receptive to ideas and impressions. In despair they turn to the government, and from an early period it has been a vast working asylum. Most who have entered it have quickly mastered the work assigned to them, and if permitted to remain as long as they were efficient, the public service would not have suffered from their presence. But the spoils doctrine has been a terrible and perpetual tempest, spreading fear and insecurity everywhere, for no one has ever known when he would be struck. In every case he has been sure that his time was brief. Who, in the near presence of death, ever stirred his earthly ambition?

Perhaps a wider unanimity of sentiment has prevailed

concerning the compensation paid to those employed by the government than on almost any other large question. This subject is, indeed, a perennial one, yet it may be truly said the government has been served cheaply. Of course, an exception must be made of the incompetent, who are dear at no price. From the President, cabinet, and judiciary, down to the least paid, the compensation given has been justified by the services rendered. The flagrant cases of excessive compensation have been for extra services, and in the bestowal of fees. Many of the weeds in the garden of the fee system have been pulled up; nevertheless, many more are rankly growing which ought to be destroyed.

Turning now to purchases of the government, the law provides for making them in many cases by competition, and with sufficient publicity to get the best rates and escape imposition, if executed with an honest purpose. But when officials have been selected lacking this quality, they have used the law to blind those around them and to perpetuate frauds. The creation of machinery into which men will be so perfectly fitted as to work perfectly, whether they wish to work so or not, has not been devised, and never will be. Some approximations have been made; our elaborate system of checks and duplications combines simplicity with security against fraud and error. If we regard this system with rational pride, it must also be mingled with shame in consequence of the frauds that have been committed by means of it, or with fear that others lie unseen beneath the surface. The business of the administrative government is constantly changing, and so, while the discretion of officers is narrowed—not always, it must be admitted, as it ought to have been—new necessities give rise to fresh exercises of discretion, and for wrong-doing. The

most impressive lesson to be learned in studying the history of the expenditure of the government is, that honest and capable men are the only safeguards against inefficient and dishonest management. Wise laws may prove helpful, friendly lights to make plain the true way, but no laws, however luminous, will be faithfully executed by the vicious, or those who are exclusively seeking personal ends. If the people sought to put the fittest men in office, great and small, having faith in their capacity and intention to conduct public affairs wisely, instead of selecting inferior men, and then making laws wherein for them to walk, and barriers to prevent them from doing wrong, statute making would decline in importance as the art of governing improved.

Many large undertakings have been performed by the government itself, especially the constructing of forts and buildings, but the economy of the mode has been often questioned. Some of the public buildings have been erected by contract with individuals, whereby they received a stipulated price for the material used, prepared and put it in place, and were paid a percentage on the expenditure. Such contracts were certainly of a dangerous nature; for, the larger the expenditure, the more the contractor received. Yet we ought to add that the government has generally been honestly served in these cases. The secretary of the treasury was careful in making the contracts; in many cases the contractors had a genuine pride to do their part honestly and well, and there is ample authority for the statement that the buildings thus constructed are the cheapest, considering their quality, that have been erected. The government had inspectors and superintendents, but it would have been easy to practice fraud had the secretary of the treasury or the contractors been dishonest.

One of the most interesting undertakings of the government to save money was in establishing the bureau of engraving and printing. Only a few companies existed in the country at the time of Mr. Chase's determination to have this work done at the treasury department, and their profits were very great. The continuing of the war caused the issuing of many more bonds and legal-tender notes and fractional currency than Mr. Chase at first supposed would be issued. The business of the bureau soon grew to enormous proportions. From the outset the bank-note companies put forth vigorous efforts to dissuade the secretary of the treasury from attempting to print the public securities in the department. Failing to convince him that the work could not be done with so much security by the government as by themselves, they tried to convince him that the superintendent of the bureau was unworthy of his confidence. They were unceasing in their attacks on the bureau, and found a zealous assistant in the House, who represented one of the districts of the city of New York. No sooner was one investigation ordered and concluded than another was begun. These attacks were continued year after year.¹ When the national banking system was established, and the notes of the State banks were doomed, a tremendous addition was made to the business of the bureau. The more the business increased, the keener and less scrupulous were the companies in their efforts to destroy the bureau. In one of the investigations it did appear that inexcusable negligence and carelessness had crept into the work of the bureau, but no fraud was discovered. An investigating committee in 1875 declared that the establishment of the bureau "was

¹ House Report, No. 150, 43 Cong., second session. Report by Joint Select Committee, No. 273, 40 Cong., third session.

judicious and wise, both as a matter of safety and economy. Both the national treasury and the citizen had been protected from spurious issues of currency and other securities to a degree quite impossible had they been prepared by contract with private parties. There can hardly be a doubt, had the government depended for its enormous amount of work upon the bank-note companies and individual firms alone, the demands would have far exceeded the sums actually paid." Mr. Chase, in truth, followed the examples of the Bank of England, and of continental countries, and the cruel persistency with which the bank-note companies strove to break up the bureau was conclusive proof, on the one hand, of the profits they expected to make if they could get control of the business, and, on the other, of the justification of the government to do, if practicable, its own engraving and printing. It was a hazardous thing to attempt, and unceasing vigilance was required to prevent frauds; but the success of the experiment long ago satisfied nearly all, except, perhaps, the bank-note companies, of the wisdom of it. For considerable periods it proved a comfortable asylum for many needless persons who, by a strained use of language, were "employed" by the government; but under Mr. Sherman's administration of the treasury they disappeared, and since that time the bureau has generally been prudently managed.

Whether the government has been justified in erecting so many buildings during the last twenty years is a question which need not detain us long, because opinions vary and probably always will. Their construction belongs rather to the second class of expenditures, for they cannot be considered necessities. Regarded from the economical side, the government in most cases could hire much more cheaply than build;

these structures, therefore, cannot be defended on the ground of economy. But our country having grown rich and populous, public sentiment very generally has favored the erecting of buildings for use and adornment and symbols of national greatness. Every city is ambitious to have one or more government buildings to enrich its appearance. One reason why appropriations of this nature are so readily granted is, that, like those for rivers and harbors, they furnish proof of legislative capacity, and improve the chances of members to retain their seats. This seems a singular test for determining the efficiency of a congressman; yet if one of the crudest, it is one of the most potent. Though every city pays toward the construction of all the buildings in other places, the gain received is so clearly perceived by the senses, and the contribution toward the erection of others is made in such an indirect manner, that not much dissatisfaction has been expressed about these expenditures during the last twenty years.

The appropriations for rivers and harbors are encountering more opposition. A deeper channel cannot be so clearly seen as a fine building. Moreover, the buildings do fulfill a public use, though the people might be served as well at less expense, leaving out the gratification of the sense of beauty and similar considerations. The return to the public for the millions spent, euphemistically in "improving the navigation," is so small that the inquiry, though long delayed, whether it ought not to stop, is likely to receive a correct answer. Of course, many of the appropriations for this purpose have been fully justified, the navigation of many rivers and harbors has been improved, but too often such appropriations have simply improved the fortunes of the contractor without a corresponding benefit to the public.

A deeper stratum underlying our expenditures is composed of theories concerning governmental functions. Are they many or few; is the function of government primarily to administer justice and leave every person in the possession of the largest liberty compatible with the possession of similar liberty by all; or is the function a wider one and incapable of clear definition? These theories have always existed and lain at the bottom of the discussions of Congress on expenditures, whether they were clearly enunciated or not. One party or section of members have contended that fifteen or twenty thousand men were enough for an army; another that the army needed much enlargement. Over and over again this question has been discussed with regard to the navy. On the one hand it has been contended that our country is quite safe from foreign attacks, and that a navy was not needed; on the other, that new vessels adapted to modern warfare ought to be constructed. Not a few members of Congress have favored the appropriating of money to the States for education; others have strongly opposed this expenditure. From time to time money has been appropriated for less general purposes—the centennial and New Orleans expositions. All appropriations of this nature have found strong advocates and opponents. The tendency is in the direction of enlarging the sphere of government, which, of course, means the increasing of the national expenditure.

If the votes and speeches of many members of Congress have hinged on their conception of the true governmental sphere of action, others have been moved by narrower and more personal ends. The ends of party have also been powerful factors in determining the national expenditure. The people generally have favored economy, and their representa-

tives have realized that this was a popular tune to play. On the other hand, this has never been popular with those employed by the government, for it meant a reduction in number and compensation. If the majority of the legislative body belonged to a different party from the administrative, then it was easy for the former to preach economy in and out of season; but if both departments of the government were controlled by the same party, which usually has been the case, then the more difficult problem existed of preaching reform and economy from the housetops, to gain the confidence of the people, and of leaving things untouched within to retain the support of the great army of government officials and their friends. Thus a dual policy has been sometimes pursued in these matters. Moreover, the heads of the departments, with rare exceptions, have opposed retrenchment, because this implied extravagance or incompetency on their part, and reacted unfavorably on the party to which they belonged. A political party has never been slow to sit in judgment on the opposing one, but the task has never been so congenial of performing the double function of acting as accuser and accused. And whenever this could not well be avoided, it was far more agreeable to sustain, if possible, what had been done, than to criticize and condemn. It is true that parties seek to become strong by acting for the general good, but not always. Party advantage is by no means synonymous with national advancement, but often has been the reverse. Thus the appropriations have been determined in a varying though always large degree by party considerations; and these, in most cases, cannot be reduced to principles. To retain or gain power has been the ambition of parties at all times, and so far as the appropriation of money could be used to accomplish this end,

whether much or little, whether to soldiers or for buildings, or rivers, or harbors, parties in our country have freely used it.

During some sessions appropriation bills have formed the chief topics of debate, but even then party, not country, has been uppermost in the minds of many a participant. This judgment does not apply to all; on the other hand, at every session some members have tried to frame these bills on rational principles. The debates are strewn with remarks showing the keenest regard for the national honor and upbuilding. In too many instances, though, the bills have been reported near the close of the session, and rushed through with little or no debate. Their indifference in appropriating public money is in striking contrast with their regard on many occasions for its expenditure by the departments. Occasionally they have awakened, and intelligently winnowed the items in a bill, but confiding in the honesty and wisdom of the Appropriation Committee, the appropriations during nearly the whole of our national history have been annually determined by a dozen men.

Too many members have had a personal interest in claims before Congress, and have exerted their utmost to obtain appropriations for them. In other cases they have been indebted to claimants for money in securing their election, or other aid, and have felt bound to repay at the public expense. Congressmen have been elected sometimes through the influence of those opposed to them politically, expecting to serve on patent, or land, or claims committees, and in that capacity render valuable service to those who had thus assisted in their election. In every Congress, therefore, members may be found dressed in deceptive clothing, and who go as far in plucking the public goose as they dare. Their chief exertions centre around narrow personal ends, and all kinds of promises

are made to accomplish their schemes. One may read the numerous private bills in the statute book with surprise, knowing that many larger public measures failed; but when it is remembered that their authors diligently charged the congressional furnace a whole session, putting into it and melting every variety of promise, so that when the furnace should be finally discharged, every one interested should have his mould filled, the surprise is over.

The appropriations of Congress, therefore, are the perpetual proofs of the morality and intelligence of the members. The ordinary current appropriations will stand the stronger light of scrutiny than any other. The more personal they are, and the more closely they have related to the fortunes of members, the less rational criticism they will bear.¹ At all times appropriations have been the outcome of a great variety of notions and considerations. It would be difficult to extract from them any principle, save that of serving the individual first as far as he dared go, and the country afterward. Of course, the annals of Congress are adorned with many a splendid exception; unhappily, they have rarely had influence enough to set the current in a right direction.

Members of Congress have often acted in the strong light of another consideration—namely, that if, in appropriating the public money, public or party ends were opposed to narrower or more personal ones, the latter should be first regarded. Of course, they have never forgotten the public, or not often. They have realized that bounds existed beyond which they could not safely go. They have clearly understood that the vision of people was clearest and strongest at

¹ See articles in *N. Am. Rev.*, vol. 128, p. 572, by Pres. Garfield, and vol. 137, p. 19, by Rep. Holman.

short range, and therefore, if a congressman could get an appropriation for a building or a river, he knew that this would be perceived, while the true cost of it to the country would not be. His hold on his constituency would consequently be strengthened because of their ability to see the one thing and inability to see the other. Members of Congress have not infrequently acted from much narrower considerations.

The least defensible of all the appropriations of Congress are for claims. For a long time it has been certain enough that neither the committees of Congress nor the accounting officers of the treasury department could properly examine disputed or questionable claims. The evidence is *ex parte*, and many fraudulent claims are presented, reported favorably and paid. For many years some members of Congress have been trying to have them referred to the tribunal especially created to examine and report on such matters. To the forty-seventh Congress nearly four thousand claims were presented. Much time is required to hear the evidence. Said a committee of Congress in their report¹ on this subject: "The pressure of business is now so great that the claims before the committees are generally allotted for examination to sub-committees of one, two, or three members. Claimants, therefore, naturally begin by seeking first a favorable committee to which to refer their claims, and next for a favorable selection from that committee to consider them. Evidence is then offered in the form of statements or *ex parte* affidavits. There is no answer, usually no personal appearance of witnesses, no cross-examination, no opposing testimony, no inquiry by nor appearance on the part of the government, no general publicity, no check against fraud, and no prescribed rules and regulations for the investi-

¹ No. 198, 46 Cong., second session.

gation. Many of the claims are impressed with a sectional or party character especially calculated to exclude all judicial fairness in their consideration." Then they are reported to the House, and in some cases action is speedily taken; in others, long delayed. Many a just claim pending before Congress is half a century old, many a fraudulent one has been paid, many a defeated one reappears. A claim against the government is endowed with immortality. The reports of Congress are strewn with long and laborious reports on the claims of McGarahan, Chorpensing, Fisher, Holliday, Beaumarchais, the two-per-cent land claims of some of the Western States, spoliation, and a long, if not goodly, list whose names are as familiar to congressmen as those of their own children. A history of the persistent and often desperate efforts displayed in pressing some of these claims, the ingenious and extraordinary expedients employed, the elaborate and crooked devices, would be one of the most curious as well as one of the saddest ever written.

In 1864 Congress authorized the comptroller of the treasury to ascertain the amount due to certain officers and report the same for allowance. This relieved Congress from the consideration of one class of claims. They were the most meritorious of all, and Congress could not deal promptly by the claimants. In 1884 a bill was reported to the House¹ recommending a reference of all the claims presented to Congress to the Court of Claims, and also all involving controverted questions of law and fact pending in the departments, and prescribing a limitation of time for presenting them. The obvious merit of this measure ought to have secured its prompt adoption. If passed, what a multitude of claims would have been

¹ Report, No. 471, 47 Cong., first session.

consigned to the grave ! It was doubted whether the Court of Claims could transact so much business, but Chief Justice Drake assured the committee who reported the bill that he did "not believe that more than one claimant in twenty would ever file a petition in the Court of Claims." No one questioned the opinion of the chief justice, and who with reason could have done so ; for had he not had a long and unrivaled experience in dealing with this class of persons ? Accepting the opinion as true, what a judgment was implied on that numerous and persistent army of claimants, who, year after year, have been flitting around Congress like the hardened and insatiable gambler around the famous gambling places of Europe, and what a terrible judgment was implied on that body of men who year after year have continued the farce of recommending the payment of claims on a one-sided statement, on which, if a judgment were rendered by a court of law, the tribunal would inevitably be visited with universal and just contempt !

APPENDIX.

A.

THE National Democratic platform of 1832 (May 11) contained the following resolution: "That an adequate protection to American industry is indispensable to the prosperity of the country," and that an abandonment of the policy at this period would be attended with consequences ruinous to the best interests of the nation. The fourth resolution of the Democratic platform of 1840 (May 5), was: "That justice and sound policy forbid the Federal government to foster one branch of industry to the detriment of another, or to cherish the interests of one portion to the injury of another portion of our common country; that every citizen and every section of the country has a right to demand and insist upon an equality of rights and privileges, and to complete and ample protection of persons and property from domestic violence or foreign aggression." And the fifth resolved, "That it is the duty of every branch of the government to enforce and practice the most rigid economy in conducting our public affairs, and that no more revenue ought to be raised than is required to defray the necessary expenses of the government." These two resolutions were reaffirmed in the Democratic platform of 1844 (May 27). The Whig platform of the same year (May 1) contained a single resolution, one portion of which was, "a tariff for revenue to defray the necessary expenses of the government, and discriminating with special reference to the protection of the domestic labor of the country."

At the Democratic convention in 1848 (May 22), the fourth and fifth resolutions above mentioned were reaffirmed with the addition

to the last, "and for the gradual but certain extinction of the debt created by the prosecution of a just and necessary war." The Mexican war was then in the mind of the convention. The twenty-first resolution recounted the good effects of President Polk's administration, among which was "the noble impulse given to the cause of free-trade by the repeal of the tariff of '42, and the creation of the more equal, honest, and productive tariff of 1846." In 1852 (June 1), the Democratic convention reaffirmed the fourth and fifth resolutions in the platform of 1848, with an additional declaration in resolution twenty against "exclusive legislation for the benefit of the few at the expense of the many." The fifth resolution of the Whig platform of that year (June 16) was the following: "Governments should be conducted on the principles of the strictest economy; and revenue sufficient for the expenses thereof, in time of peace, ought to be derived mainly from a duty on imports, and not from direct taxes; and on laying such duties sound policy requires a just discrimination, and, when practicable, by specific duties, whereby suitable encouragement may be afforded to American industry, equally to all classes and to all portions of the country." The Free-soil platform of that year (August 11) resolved "that no more revenue should be raised than is required to defray the strictly necessary expenses of the public service and to pay off the public debt."

In 1856 (June 6), the Democratic convention reaffirmed the fourth resolution in their platform of 1840 above mentioned, and under the head of Resolved, finally added that "the time has come for the people of the United States to declare themselves in favor of free seas and progressive free-trade throughout the world." The Whig platform of that year (September 13) was silent on the subject, and so was the Republican platform (June 17). The Republican platform of 1860 (May 17) resolved (12), "That while providing revenue for the support of the general government by duties upon imports, sound policy requires such an adjustment of these imports as to encourage the development of the industrial interest of the whole country; and we commend that policy of national exchanges which secures to the workingmen liberal wages, to agri-

culture remunerative prices, to mechanics and manufacturers an adequate reward for their skill, labor, and enterprise, and to the nation commercial prosperity and independence." The Democratic (Douglas) platform (June 18), and the Democratic (Breckinridge) platform of that year reaffirmed the Democratic platform of 1856.

The Republican platform of 1864 (June 7), and, also, the Democratic platform of the 29th of August following, were silent on the subject, and so was the Republican platform of 1868 (May 20). The Democratic platform of that year (July 4) contained the following in the sixth resolution: "A tariff for revenue upon foreign imports, and such equal taxation under the internal revenue laws as will afford incidental protection to domestic manufacturers, and as will, without impairing the revenue, impose the least burden upon, and best promote and encourage the great industrial interests of the country."

The Liberal Republican platform of 1872 (May 1) proclaimed this principle: (6) "We demand a system of federal taxation which shall not unnecessarily interfere with the industry of the people, and which shall provide the means necessary to pay the expenses of the government, economically administered, the pensions, the interest on the public debt, and a moderate reduction annually of the principal thereof; and recognizing that there are in our midst honest but irreconcilable differences of opinion with regard to the respective systems of protection and free-trade, we remit the discussion of the subject to the people in their congressional districts and the decision of Congress thereon, wholly free from executive interference or dictation." The Democratic party, in their convention at Baltimore (July 9), adopted this principle, but the Democratic convention which assembled at Louisville (Sept. 3) repudiated the Baltimore platform. The Republican platform of that year (June 5) declared thus: (7) "That revenue, except so much as may be derived from a tax upon tobacco and liquors, should be raised by duties upon importations, the details of which should be so adjusted as to aid in securing remunerative wages to labor, and promote the industries, prosperity, and growth of the whole country."

In 1876 (June 14), the eighth article in the platform of the Republican party declared that "the revenue necessary for current expenditures and the obligations of the public debt must be largely derived from duties upon importations which, so far as possible, should be adjusted to promote the interests of American labor, and advance the prosperity of the whole country." The Democratic party in their platform of 1876, said: "We denounce the present tariff, levied upon nearly four thousand articles, as a masterpiece of injustice, inequality, and false pretence. . . . We demand that all custom-house taxation shall be only for revenue." The Independent Greenback platform of that year (May 17) contained the following doctrine: "It is the paramount duty of the government, in all its legislation, to keep in view the full development of all legitimate business, agricultural, mining, manufacturing, and commercial." Two years afterward (February 22, 1878), the national platform declared: (7) "The government should, by general enactments, encourage the development of our agricultural, mineral, mechanical, manufacturing, and commercial resources, to the end that labor may be fully and profitably employed; but no monopolies should be legalized."

In 1880 the Republican platform (June 2) declared: "That the reviving industries should be further promoted;" the Democratic platform (June 22) favored "a tariff for revenue only;" that of the Independent Republicans was silent on the subject.

The Republican platform of 1884 contained the following resolution: "We therefore demand that the imposition of duties on foreign imports shall be made not 'for revenue only,' but that, in raising the required revenues for the government, such duties shall be so levied as to afford security to our diversified industries and protection to the rights and wages of the laborer, to the end that active and intelligent labor, as well as capital, may have its just reward and the laboring man his full share in the national prosperity." The resolution in the Democratic platform was very lengthy; a portion only is given. "The Democratic party is pledged to revise the tariff in a spirit of fairness to all interests. But, in making reduction in taxes, it is not proposed to injure any

domestic industries, but rather to promote their healthy growth. . . . The necessary reduction in taxation can and must be effected without depriving American labor of the ability to compete successfully with foreign labor, and without imposing lower rates of duty than will be ample to cover any increased cost of production which may exist in consequence of the higher rate of wages prevailing in this country."

B.

REPORTS RELATING TO THE EXPENDITURES OF THE GOVERNMENT.

The following list contains the principal reports relating to the expenditures of the government. A complete list of all the reports made by the President and the heads of the departments is given in the first volume of the Miscellaneous Documents of the House at each session.

A detailed statement is annually made by the head of each department of the manner in which the contingent fund for his department, and for the bureaus and offices therein, has been expended.

A report of the names of the clerks and other persons that have been employed in his department and the offices thereof, stating the time that each clerk or other person was actually employed and the sums paid to each; also, whether they have been usefully employed; whether the services of any of them can be dispensed with without detriment to the public service; and whether the removal of any individuals and the appointment of others in their stead is required for the better dispatch of business.

The following reports are made by the secretary of the treasury :

A report on the subject of finance, containing estimates of the public revenue and public expenditures for the fiscal year then current, and plans for improving and increasing the revenues from time to time, for the purpose of giving information to Congress in

adopting modes of raising the money requisite to meet the public expenditures.

A report containing a statement of all contracts for supplies or services which have been made by him, or under his direction during the year preceding, and also a statement of the expenditure of the moneys appropriated for the discharge of miscellaneous claims not otherwise provided for, paid at the treasury.

A report of the rules and regulations established by him to secure a just, faithful, and impartial appraisal of all goods, wares, and merchandise imported into the United States, the actual value thereof, and the number of square yards, parcels, or other quantities thereof, together with his reasons for making such rules.

A statement of the amount of money expended at each custom-house during the preceding fiscal year, and of the number of persons employed, and the occupation and salary of each person at each custom-house during the same period.

A report containing the results of the information collected during the preceding year, by the bureau of statistics, upon the condition of the agriculture, manufactures, domestic trade, currency, and banks of the several States and Territories.

Reports which may be made to him by the auditors charged with the examination of the accounts of the department of war and the department of the navy, respectively, showing the application of the money appropriated for those departments for the preceding year.

The annual report on the statistics of commerce and navigation required from the chief of the bureau of statistics, to be prepared and printed according to law, and to be submitted to Congress at as early a day in each regular session as practicable, and not later than the first Monday in January.

And of the reports which the secretary of state is required to furnish, one contains the changes and modifications in the commercial systems of other nations, whether by treaties, duties on imports and exports, or other regulations, as shall have been communicated to the department, including all commercial information contained in the official publications of other governments, which he shall deem sufficiently important.

A report by the postmaster-general of all contracts for carrying the mail made within the preceding year, giving in each case the name of the contractor; the date and duration of the contract; the routes embraced therein, with the length of each; the time of arrival and departure at the ends of each route; the mode of transportation; and the price to be paid, together with a copy of the recorded abstracts of all proposals for carrying the mail.

A report of the finances of the department for the preceding years, showing the amount of balance due the department at the beginning of the year; the amount of postage which accrued within the year; the amount of engagements and liabilities; and the amount actually paid during the year for carrying the mail, showing how much of the amount was for carrying the mail in preceding years.

A copy of each contract for carrying the mail between the United States and foreign countries, with a statement of the amount of postage derived under the same, so far as the returns of the department will enable it to be done.

A report showing all contracts which have been made by the department, other than for carrying the mail; giving the name of the contractor; the article or thing contracted for; the place where the article was to be delivered or the thing performed; the amount paid therefor; and the date and duration of the contract.

A statement by the secretary of the navy of all offers for contracts for supplies and services made during the preceding year, by classes, indicating such as have been accepted.

A statement showing the amounts expended during the preceding fiscal year for wages of mechanics and laborers employed in building, repairing, or equipping vessels of the navy, or in receiving and securing stores and materials for those purposes, and for the purchase of materials and stores for the same purpose; and showing the cost or estimated value of the stores on hand, under this appropriation, in the navy-yards at the commencement of the next preceding fiscal year; and the cost or estimated value of articles received and expended during the year; and the cost or estimated value of the articles belonging to this appropriation which may be on hand in the navy-yards at the close of the next preceding fiscal year.

A report by the first comptroller of such officers as shall have failed to make settlement of their accounts for the preceding fiscal year within the year, or within such further time as may have been prescribed by the secretary of the treasury for such settlement.

A summary by the comptroller of the currency of the state and condition of every association from which reports have been received the preceding year, at the several dates to which such reports refer, with an abstract of the whole amount of banking capital returned by them, of the whole amount of their debts and liabilities, the amount of circulating notes outstanding, and the total amount of means and resources, specifying the amount of lawful money held by them at the times of their several returns, and such other information in relation to such associations as, in his judgment, may be useful.

A statement exhibiting under appropriate heads the resources and liabilities and condition of the banks, banking companies, and savings banks organized under the laws of the several States and territories; such information to be obtained by the comptroller from the reports made by such banks, banking companies, and savings banks to the legislatures or officers of the different States and territories; and where such reports cannot be obtained, the deficiency to be supplied from such other authentic sources as may be available.

All persons whatsoever, charged or trusted with the disbursement or application of money, goods or effects of any kind for the benefit of the Indians, shall settle their accounts annually at the department of the interior on the first day of October; and copies of the same must be laid before Congress at the commencement of the ensuing session, by the proper accounting officers, together with a list of the names of all persons to whom money, goods, or effects have been delivered within the preceding year for the benefit of the Indians, specifying the amount and object for which they were intended, and showing who are delinquents, if any, in forwarding their accounts according to the provisions of this section; and, also, with a list of the names of all persons appointed or employed under this title, with the dates of their appointment or employment, and the salary and pay of each.

The commissioner of internal revenue shall estimate in detail, by collection districts, the expense of assessing and the expense of the collection of internal revenue, and submit the same to Congress.

The secretary of the Senate and the clerk of the House, as soon as practicable, after the close of each session, shall prepare and publish a statement of all appropriations made during the session, a statement of the new offices created and the salaries attached to each, and a statement of the offices the salaries attached to which are increased, and the amount of such increase.

The secretary of the Senate and the clerk of the House, respectively, shall report to Congress a full and complete statement of all their receipts and expenditures as such officers, showing in detail the items of expense, classifying them under the proper appropriations, and also showing the aggregate thereof, and exhibiting in a clear and concise manner the exact condition of all public moneys by them received, paid out, and remaining in their possession as such officers.

C.

The reduction by the action of Congress in internal revenue taxation has been:¹—

July 13, 1866.....	\$65,000,000
March 2, 1867.....	40,000,000
February 3, 1868.....	23,000,000
March 31, and July 20, 1868.....	45,000,000
July 14, 1870.....	55,000,000
June 6, 1872 ²	20,651,000
March 1, 1879 ³	13,273,148
March 3, 1883 ⁴	31,955,332

¹ Finance Report, 1872, p. 9.

² From the increased tax on whiskey, March 3, 1875, \$5,186,282 of revenue were derived the following year.

³ Finance Report, 1880, pp. 85, 86.

⁴ Ibid., 1884, pp. 79, 97.

D.

SECRETARIES OF THE TREASURY FROM MARCH 6, 1861, TO
MARCH 5, 1885.

Salmon P. Chase	March	5, 1861...	June	30, 1864
William P. Fessenden.....	July	1, 1864...	March	3, 1865
Hugh McCulloch	March	7, 1865...	March	4, 1869
George S. Boutwell.....	March	11, 1869...	March	16, 1873
William A. Richardson.....	March	17, 1873...	June	3, 1874
Benjamin H. Bristow.....	June	2, 1874...	June	20, 1876
Lot M. Morrill	June	21, 1876...	March	9, 1877
John Sherman	March	9, 1877...	March	3, 1881
William Windom	March	5, 1881...	November	13, 1881
Charles J. Folger	November	14, 1881...	September	4, 1884
Walker Q. Gresham.....	September	24, 1884...	October	27, 1884
Hugh McCulloch	October	28, 1884...	March	5, 1885

COMPTROLLERS OF THE CURRENCY FROM MAY 9, 1863, TO
MARCH 5, 1885.

Hugh McCulloch	May	9, 1863...	March	8, 1865
Freeman Clarke.....	March	9, 1865...	July	24, 1866
Hiland R. Hulburt.....	February	6, 1867...	April	3, 1872
John J. Knox.....	April	24, 1872...	April	30, 1884
Henry W. Cannon.....	May	2, 1884.....	in office.	

COMMISSIONERS OF INTERNAL REVENUE FROM JULY 12,
1862, TO MARCH 19, 1885.

George S. Boutwell.....	July	12, 1862...	March	4, 1863
Joseph J. Lewis.....	March	10, 1863...	June	30, 1865
William Orton	July	1, 1865...	October	31, 1865
Edward A. Rollins.....	November	1, 1865...	March	10, 1869
Columbus Delano	March	11, 1869...	October	31, 1870
Alfred Pleasonton.....	January	3, 1871...	August	8, 1871
John W. Douglass.....	August	9, 1871...	May	14, 1875
Daniel D. Pratt.....	May	15, 1875...	July	31, 1876
Green B. Raum.....	August	2, 1876...	April	30, 1883
Walter Evans.....	May	21, 1883...	March	19, 1885

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